

Lesson Twelve

Competition

LESSON IDEA

Competition is an essential ingredient in the free enterprise system. It works automatically to see that we get better goods at lower prices, and to reward those who have earned it.

VISUAL AID

None recommended for this lesson.

ONCE UPON A TIME in Daydream, the capital city of a country called Utopia, there was an outstanding baseball team. Yet at the beginning of the season, few thought that it would do very well, since it had a new coach, no star players, and had lost most of its games the season before.

But this year was different. The Hopefuls (as the team was called) barely won its first game, in extra innings, by a score of 3 to 2. It led all the way in its second game, winning 5 to 1. Its opponents were held scoreless in the next three games. The sixth game, like the first, went into extra innings, but again the Hopefuls won when, with two out in the bottom of the 13th, a pinch-hitter for the pitcher hit a bloop single with a man on third.

And so it went throughout the season. Incredibly, when it was over, the Hopefuls had gone undefeated to easily win the city championship. The team then captured the regional title and, in yet another extra-inning contest, prevailed in the final game of the national championship by a score of 9 to 8 to complete a four-game sweep.

The residents of Daydream could hardly contain themselves. Their underdog team had miraculously completed a perfect season! Thousands of fans lined the streets to welcome the team home. The mayor presented the manager with a key to the city. Politicians had their photographs taken with team members.

The legislator who represented the district where the Hopefuls' top hitter lived even proposed a bill in Congress proclaiming the team to be the best ever, and suggesting that since it was so

good, it should never have to play another game. "After all," he said, "haven't these players already proven they are the best? Why should they have to prove it again?"

To the surprise of those who do not understand how Congress sometimes works, the ludicrous bill passed, and the Hopefuls were officially declared the everlasting champions of baseball.

THE TEAM TOURED the nation, meeting fans, speaking in schools, riding in parades, opening fairs, and visiting hospitals. Everywhere the team went, its members were welcomed, cheered, and invited to lavish banquets. For more than three months, they did virtually everything but keep in shape to play baseball.

Then one day, during a visit in the countryside, the Hopefuls were invited to play an exhibition game with a local high school team. Needless to say, no one thought the high schoolers could compete with the national champs. But the Hopefuls had not practiced or played for nearly 12 weeks, and it soon became obvious that something was wrong. They couldn't buy a hit, the center fielder dropped a simple pop fly that cost two runs, the starting pitcher walked five high schoolers in a row at one point, and the infield committed three errors during the first four innings. When it was over, the high school team had embarrassed their renowned competitors by a lop-sided score of 8 to 3.

Everyone was shocked at the result, and couldn't imagine what had happened to the Hopefuls. What do you think explains their pitiful performance?

[Encourage answers until all agree that the lack of competition leading up to the game had hurt the team.] Can you imagine any team that could remain the same, much less improve, without the competition of playing other teams on a regular basis? Why is competition so essential to athletic achievement? Is practice alone enough?

THE SAME PRINCIPLE applies to the free enterprise system. It takes competition to inspire the improved methods of production and distribution that result in higher quality at lower prices.

Let's take a brief look at one product to determine how it is affected by competition. Milk, something with which we are all familiar, has not been changed much over the years. Long ago, families had a simple way to obtain the milk they wanted. There were no dairies or bottlers or supermarkets. What do you think they did? [They raised and milked their own cows.]

Eventually, someone decided to go into the business of raising and milking many cows, and selling the milk to neighbors. He became a specialist. What do you think determined whether people bought milk from him or continued to raise their own cows? [The price of the milk compared to the time and effort it took to produce it.]

Once our entrepreneur (i.e., someone who starts a business) was able to sell milk at such a low price that his neighbors decided to buy it from him, rather than continue to raise and milk their own cows, he was in the dairy business. As his customers increased, he had to buy more cows, and hire more workers, which meant more jobs. He also needed a wagon (and eventually several wagons) so that he could deliver milk to his customers. And that meant drivers, horses, milk jugs, and many more jobs.

FOR YOUNGER AMERICANS

Elementary school students will recognize that competition is essential in sports contests. But it is doubtful if many of them have considered how the very same principles apply to our economic system. Draw further parallels from tonight's lesson, to make certain they understand this important point.

For example, what would happen in a baseball game that was forced to remove a player from its lineup whenever it gained a lead, to allow the other team to catch up?

In sports, the championship trophy goes to the team that performs best under a uniform set of rules. Is this fair? What if each team received the same award, whether it finished first or last? How does such a scenario compare with what happens when government interferes with the free enterprise system by favoring or impeding business (or business sector)?

Once the business began showing a profit for its owner, something else happened. What was it? [Others became dairymen, thus creating competition.]

That's right. Other entrepreneurs decided to go into the dairy business. In larger communities, there might be four or five different dairies selling milk. What do you think happened to milk prices? Did they rise, decline, or stay the same? [They decline to the lowest point consistent with operating an efficient, and well-managed dairy.] Why does competition work to hold prices down?

Competition also encouraged each dairyman to find better ways to produce milk less expensively. Why would a dairy farmer want to lower his costs?

Without listing all of the many cost-cutting advances that have been made in the dairy industry, let's consider just one result of mechanization. In the early days, cows were milked by hand. A dairy farm with 100 cows required several employees to milk them. Then someone came up with the idea of a machine that could milk cows. Since it was less expensive to purchase a milking machine than to hire many workers, dairy farmers relished the idea. Workers who had milked cows had to find other jobs, of course, but new job opportunities were created by the invention of the milking machine. Machinists had to make the parts, others had to assemble them, salesmen had to market the completed machines, and so on.

Suppose that the first dairyman to buy a milking machine decided to keep the additional profit for himself, rather than pass at least some of it along to his customers by lowering the price of his milk. Would he have been able to do so for very long? What happened once a second dairy bought a milking machine and lowered the price of the milk it produced?

COMPETITION also helped determine where the milk was sold. At one time, milk was purchased directly from the dairy. Then a store-keeper realized that he could buy it from the farmer and resell it to his customers, making a small profit in the process. If there were only one store in a community, the owner might not be concerned about keeping his price low. He would want to sell it for as much as possible. But once someone else realized that milk could be sold

for less, yet still make a profit (as a reward for the investment of money and time), another milk store would open.

In addition to keeping prices low, competition keeps quality high. A dairyman or store owner who sells milk that is not fresh, or has been diluted with water, will either change his ways or go out of business. Customers tend to “vote” with their purchasing power for those businesses that provide the highest quality at the lowest price.

As noted, milk itself has changed little for hundreds of years. But thanks to competition and free enterprise, virtually everything surrounding it has changed, from farms to containers and stores to delivery systems. The dairy industry has spawned hundreds of new industries and tens of thousands of jobs. Because of competition, Americans are able to consume more milk at less cost than residents of any other nation.

Often, however, competition leads to significant changes in products themselves. Consider, for

instance, the cameras that were in vogue a century ago, compared to those sold today. Instead of electronic flashes, compact film cartridges, and self-developing Polaroid prints, what were the characteristics of cameras then? Over the years, there has been an enormous investment of time and money to find ways to make cameras more user friendly and less expensive, and film that results in ever higher-quality pictures.

Today, instead of expensive, yet scratchy, black-and-white prints, cameras take beautiful color pictures at a cost that virtually any family can afford.

Looking around, one sees thousands of different products and services that have changed (and are still changing) for the better due to competition. When the free enterprise system is allowed to operate unhindered by government interference, it sparks the invention and production of more and better goods, at reasonable prices, to raise the living standard of all.

FOR SERIOUS STUDENTS

Whenever someone refers to a “regulated economy,” it usually means regulated prices, profits, and wages. Competition within a free enterprise system automatically regulates all three. How does it do so?

Collectivist systems (such as socialism or communism) that use the power of government to regulate the economy stifle competition. Why is it difficult, even impossible, for competition to exist in a controlled economy?

In a free economy, consumers decide what will be sold, and at what prices. They “vote” each time they make a purchase. Who makes such decisions in a government-controlled economy? Which approach produces the most goods, widest variety, and lowest prices?

Can manufacturers, employees, and consumers enjoy real freedom in a regulated economy? Is the United States' economic system becoming more or less controlled and regulated by government? Offer examples to support your conclusions. [They could include the growth in power and influence of such federal regulatory agencies as the Occupational Safety and Health Administration (OSHA), the Environmental Protection Agency (EPA), the Food and Drug Administration (FDA), the Consumer Product Safety Commission (CPSC), and many others. Also, such federal legislation as the Endangered Species Act, the Clean Water Act, and the Clean Air Act.]

BEFORE CONCLUDING, it is important to note what happens when competition is suppressed. There is only one agency that can accomplish that detrimental objective. Do you know what it is? [Wait until someone suggests that government is the culprit.] Yes, only government can hinder business competition, by running enterprises of its own, authorizing monopoly (or semi-monopoly) status for favored industries, granting special favors (such as subsidies and tax breaks) which create unfair advantages, imposing regulatory costs that impact small businesses more than large ones, and in many other ways.

There are those who believe that government should interfere with competition to prevent some businesses from growing too large while others fail. “It is unfair,” they claim, “to permit a company to go out of business, thereby creating unemployment, just because the owners cannot make a profit.”

It is true that, under free enterprise, businesses that cannot successfully compete for customers will fail. But what happens if government intervenes with subsidies and other favors to keep them operating?

First, prices will be higher than would otherwise be the case, since the business no longer has

to pass savings along to customers or find ways to cut costs.

Second, quality will deteriorate, since competition is as essential to induce a business to perform at its best as it is to motivate a baseball team to do the same.

Third, government will become bigger, and taxes (and/or inflation) will rise to pay for the increase.

Fourth, since creativity and invention will no longer be rewarded as they would be under free enterprise, some new products, processes, inventions, and industries that would have been created due to competition may never exist.

When government interferes with the free enterprise system, we all lose. We lose money in the form of higher prices and taxes. We lose the freedom to purchase the products and services that are never produced due to obstacles imposed by government. And we lose the opportunity to work at jobs that would have been created had government stayed out of the way.

Concluding Thought

It is true that some businesses will fail when forced to compete, and that some persons will lose their jobs and investments. But it is also true that more new jobs will be created, and more persons will profit, under competition than under a government-regulated economy. Where there is competition, there is also an abundance of goods and services, lower prices, more jobs, and more freedom.

It would be as foolish to curb competition in the market place as to restrict it in athletic contests. We should be thankful for the fruits of the competitive free enterprise system.

Looking Ahead

In our next lesson, we will recall a dramatic and inspiring instance of personal advancement under freedom. Booker T. Washington was born in slavery but rose from poverty to overcome many obstacles and found one of the leading educational institutions in the South. His story is an inspiration to all who cherish freedom.