

A Response to the Framework Document for Amending the Combines Investigation Act

Reviewed by Roger Arnold

It is sad that Walter Block had to write this essay. If politicians were less interested in power, if bureaucrats were less interested in meddling in the affairs of the economy, and if the majority of academic economists were less starry-eyed over statistics and more knowledgeable of the way free markets work, then this essay would not have had to have been written. But, alas, the world is what it is, so this essay did have to be written. Walter Block was certainly up to the task.

First, a little background. The *Combines Investigation Act* is one of those pieces of economic legislation seeking to bureaucratize and politicize the Canadian economy. It is part of the rationalist-constructivist mindset that implicitly assumes that if government officials do not have a hand in what happens in the economy, well then, nothing good can naturally happen. To the rationalist-constructivist, the only good hand is a visible hand. To them, Adam Smith's invisible hand truly is invisible.

Specifically, the *Combines Investigation Act* addresses issues such as competition, industry concentration, mergers, price fixing, cartels, vertical integration, and price cutting.

In Spring 1981, along came the Canadian Minister of Consumer and Corporate Affairs, André Ouellet, who put forth his "Proposals for Amending the *Combines Investigation Act*: A Framework for Discussion." Briefly, Minister Ouellet's proposals for reform sought to make the *Combines Investigation Act* more interventionist and meddling.

Enter Walter Block, senior economist for The Fraser Institute. Block specifically set out to criticize Minister Ouellet's proposals, to criticize the *Combines Investigation Act* in general, and to teach some good economics in the process. It is the latter goal that is likely to be the most interesting to the reader of this essay.

Walter Block is a master at destroying economic myths in a simple, understandable, and convincing way. He proved this beyond a doubt in his book

Defending the Undefendable. No economic myth is left with an ounce of life in it after Block has taken aim at it. Just two of the many myths that Block pulverizes in "A Response to the Framework Document for Amending the Combines Investigation Act" are: (1) Economic concentration is the antithesis of economic competition; and (2) Government, manned with benevolent individuals and economics experts, promotes competition. (Yes, Virginia, there still are millions of individuals who believe this foolishness.)

As to the concentration-competition issue, Block convincingly shows that concentration ratios and the number of firms in an industry have nothing to do with competition. As he colorfully notes, "Industrial concentration is as much related to competition as fish to bicycles." As Block points out, concentration ratios—statistical artifacts—overlook much of the nitty-gritty of real economic life. They, or rather the individuals who construct such things, either overlook or are ignorant of the facts that goods and markets can either be defined narrowly or broadly, that competition does not stop at a nation's borders, that the size of the economy is relevant to the discussion, and most of all, that competitive behavior does not pay any attention to silly numbers that many academic economists and government bureaucrats come up with. It is motivated by something much more fundamental. As Block correctly points out, firms with high concentration ratios are some of the most competitive firms to be found. A quick glance at a good financial newspaper or magazine generally illustrates this fact. One would have thought that most politicians, who usually vie for office alongside only one or two other individuals, would have known this. Political competition, after all, is known for its ferocity.

As to the second myth, Block shows a series of government interventions in the economy which, although their stated intention many times is to increase competition, do just the opposite. Most of these interventions can be summarized by the phrase "barriers to entry." The Block message: If the Canadian government is truly interested in promoting competition and in advancing the standard of living of its people, it should eliminate legal barriers to entry and forget all this nonsense about promoting competition by checking a firm's concentration ratio and then acting (usually) in a rationalist-constructivist way.

It is the same message advanced by other economists who understand the workings of free markets. But Block advances the message particularly well. He does it in such a way that even if the government officials or politicians do not pay heed, at least they cannot walk away feeling smug in their ignorance or hypocrisy.

This is an essay that is of interest to the educated layman, the government bureaucrat, the politician, and the academic economist. The issues covered are of immediate and lasting importance. The essay is of particular interest to the person who wants to know what competition is and is not, how politicians

behave, and why they behave as they do. With respect to the latter issue, there is enough public choice theory to make the entire discussion complete. There are few essays written today from which one can learn so much so quickly and be so thoroughly entertained along the way.