# Competition, Technocracy and Inequality

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# COMPETITION, TECHNOCRACY AND INEQUALITY

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**Abstract:** *The article present a brief analyze of theoretical virtues of free competition in relation with some visible limits and negative consequences observed in real economic life. Social intervention to correct (at least in part) those social failures and the new responses of the firms are discussed too. Possible motivations of these new actions are presented in connection with technocratic model of firm management. It seems that the model of professionalization of firm leadership created not only a new structure within the category of the intermediaries (one with extremely high powers), but later generated new interests typical for a social category. The intermediary develops his own agenda and seeks to control not only the market but also the business owners (which is possible in the conditions of the fragmentation of the large property). They have the power to distort and undermine normal competition (or at least to try it) and that conduct to some practices at legal and ethical borderline.*

**Key words:** *competition; technocracy; market failure; exclusion; inequality*
**JEL Classification:** *D40; D42; K21; L11; L12; L41*



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## 1. Introduction

Starting with classical roots of economics, the mainstream approach to competition states its major role in ensuring an efficient allocation of resources and important increments in welfare. As a mechanism for achieving equilibrium and allocating resources, competition is practically the regulator of the market and activities. And all this, even if there is no unanimously (not even a majority one) accepted definition of competition, of what competition truly means and offers (Cocioc, 2014). Not to mention whether it is a good thing or not. Market structure? Economic mechanism? Business strategy? Simple rivalry? For a more extensive discussion on competition meanings and how they entered in economic literature, see Stigler (1957) or Robinson (1980). Moreover, even today, in most textbooks there is no formal definition, the approach being rather intuitive.

However, the idea of competition has had and still has a strong influence on the way we perceive the society in which we live, on the way we look at things, we organize and lead economic activity and society (under such aspects as administration, politics, culture, sports and others) as well as personal life.

The purpose of this article is to describe the main limits and negative impact of competition and to draw some lessons. There are lessons both from observing things that were gone wrong, as well as from situations considered to be successfully. Competition can generate distortions in the functioning of the economy, as well as devastating social effects. And competition between firms alone cannot efficiently solve the long-term problems of the contemporary world.

Competition is (still) seen by most specialists as the universal solution to contemporary economic problems. Mainstream economics insist on the general rising of the standards of living for all alongside with high rewards for successful players (Burke *et al.*, 1991). Moreover, it is suggested that the ultimate cause of all the problems facing today by economies and societies is the deficiency or lack of real, effective and functional competition. Suboptimal equilibrium is determined only by suboptimal competition. Restoring the functionality of the competition to its fullest is sufficient to solve these problems (at least in time). Nothing else would be necessary. If the competition plays its role freely, everyone will win due to its many virtues.

The main benefits usually attributed to competition comprises: optimal allocation of resources; stimulating technical-economic progress; increasing efficiency; relative equalization of the conditions of production; higher affordability of goods for consumers (reduction of real prices); regulation of the social labor division; establishing the equilibrium at micro and macroeconomic level; income distribution; instrument for economic expansion (Cocioc, 1999). Or in a simplified form: low costs, low prices and low profits (Karier, 1993). This kind of free competition, which ensures such positive finalities, is obvious a competition understood as a perfect one, but not necessarily in the classical limited view but in its broader sense suggested by or Cocioc (2000).

The competition is responsible for equilibrium in all markets, but the presumption that this equilibrium is optimal in all situations is proved to be rarely true. In real economy there are a number of phenomena that put into question the absolute supremacy of competition, such as: the manifestation for a shorter or longer period of a more or less deep economic disequilibrium (e.g. various sectorial crises, recession and / or overall crises); socio-economic inequalities within a national economy and between world economies; marginalization and social exclusion which lead to a high-scale poverty; excessive exploitation of resources which could endanger a sustainable development; increasing economic power and monopoly power by concentrating and centralizing capital within giant economic units (from national monopolies to multinational and “multi-territorial” firms).

Competition has yet many constructive virtues and can yield to major positive effects. From a stronger democracy by dispersing economic power to a greater wellbeing by promoting individual initiative and (especially economic) liberty (Stucke, 2018). But there is no guarantee that in the absence of any control or public surveillance, markets and competitors will behave in a way in which such positive results are obtained in all circumstance.

Nevertheless, each and every of those virtues or benefits will determine (basically simultaneously) negative consequences as well. The success of some also meant the failure of others, and in various situations those others were more numerous. Competition is not an "all are winners" type process, even if general theory and public policies often presented it as such. And, in most cases, there is no equal gain in related to everyone's individual contribution. So, the welfare gains are significant for only a few, while for the majority they prove to be low, completely missing or even negative in many circumstances. Competition creates both wealth and poverty at the same time.

## 2. Technocracy and the obsessive short run objective of costs lowering

The change of perspective on the reference time period in economic analysis, in elaboration of strategies and in the decision at microeconomic level, seems to be related to the generalization of technocratic system to the leadership of the companies. A technocracy understood as the administration of the society or of an economic unit by an elite, consists of experts, specialists in technical and economic field. They act as intermediate professionals between capital owners and the usage of property, theoretically assuring a higher yield both individual and social.

This managerial revolution has marked greater changes in the competitive process than anything in the past. Selfishness and impatience of owners, as well as unethical practices have led to negative effects in the past too, but many of them have been counterbalance by social interventions (e.g. prohibition of market monopolization and anti-competitive practices, control over products quality, imposing a set of minimum working's conditions for employees, prohibition on child labor, limiting the length of the working day).

The initially goals seemed oriented towards a better use of resources at the present time as well as in the future. Originated in the 1930s' searches for solutions to end the Great Depression, technocratic approaches demanded a full control of the companies (a major limitation of economic freedom). The model was designed to replace a capitalism in crises (Wood, 2015), but ended to be a part of it and in many way to control it.

Later, technocracy seems to have developed its own agenda: maintaining their top leadership positions in firms and financial bonuses and other advantages as consistent as possible, obtained in the shortest time possible. For this it was necessary at least to maintain the market share and to offer the generous dividends to owners. If for the first objective, advertising becomes the main tool (for the financing of which R&D expenses are sometimes sacrificed and investments are reduced to the minimum necessary); the second is based almost exclusively on reducing the production costs. An immediate lowering of costs with minimal respect to future development. And here the most financial savings are not the result of improving economic efficiency, which practically represents a planned competitive failure (one of the basic functions of the competition is no longer fulfilled).

In the following table we tried to synthesize an analysis of the decisional and competitive environment in which the technocrats act. A kind of reverse SWOT analysis, reverse in the sense that we are talking about factors and circumstances that tempt management to adopt short-term policies based on cost cuts or certain anti-competitive practices (at least in terms of fairness).

On the left columns we have elements which can determine and favoring the adoption of measures oriented to increase the profit principally by lowering costs and engage in some practices at borderline from legal perspective (or moral). In the other columns we have some essential features with opposite inhibitory effects (obstacles, risks). The internal view comprises factors which can be controlled in some manner by firm's leadership.

In our approach the pressure coming from owners is included here as the main trigger. When there is no separation between the owner (or owners) and running a business, long-term goals are the law that underpins decisions. In many circumstances, the today profits are sacrificed to strengthen the company, for additional investments (not only in fixed capital or raw materials but also in personnel). The image of contemporary industries is dominated by joint stock companies

*Table 1.* **Main elements of opportunity and risk in adopting limitative practices**

| | Pros | Cons |
|---|---|---|
| Internal | • lower costs than the general level in the industry;<br>• appreciation of short-term results (mostly annual) and not of perspective;<br>• performance evaluated mainly on generic indicators: total profit after taxation, dividend distributed (mainly), incomes, market share (secondary);<br>• presence and extension of the barriers to entry;<br>• market power (monopoly); | • effectiveness of the measures adopted;<br>• necessary implementation period and the time of response;<br>• existence and the power of a trade union / professional association of workers; |
| External | • limits or lack of specific legislation;<br>• limitations of law enforcement;<br>• delayed response of the competitors and / or the state to certain practices;<br>• practices used by competitors;<br>• market position and power (including on the labor market);<br>• possibility to benefit and level of state aids or other support measures; | • competitors' response (modality, intensity, moment);<br>• availability and level of state aid and other forms of support;<br>• transactional costs. |

run by technocrats, in which property is dissipated in the hands of a multitude of small owners (without the possibility of influencing decisions and have a real control) or in the hands of investment or pension funds or other companies (in which the decisions are taken by other the technocrats seeking immediate gains). These technocrats are not generally owners of a significant part of the firm they run, and, more than that, most of the time they have obtained shares as a reward for their work, as part of a management contract and not as a result of their own investments. As consequence, they do not risk (or risk insignificantly) their own well-being when they abandon optimal long-term development in favor of maximizing current profits.

Given that distributed profit is almost everywhere the main indicator of shareholder satisfaction (and thus the continuity of the management team), strategies must be adapted accordingly. The short period becomes the reference period for analysis and decision. If we add the preservation of market shares, we have the minimum requirements that technocracy faces at the microeconomic level. Some specific targets may occur for a particular period or for a market, but generally those minimal expectations of shareholders are the only matters which count. And the magic solution proves to be the cut of expenditures. It is fast and does not require a high effort but rather the capitalization of some opportunities especially in relation with others (e.g. employees, suppliers).

A diminishing in the level of the wages could took place in an absolute (direct or indirect) or relative way. Directly by operating a nominal cutting. Indirectly by increasing the tasks assigned, the intensity or duration of work. The relative procedure refers to reducing customary bonuses and other advantages or by offering a salary increase lower than inflation (no contractual changes are implied). The stability of employees as well as the lack of collective bargaining and strong unions are mandatory conditions for applying such measures. For this raison the trade unions are the main enemy for the large corporation and the technocracy system in general. In this respect they act not only against unionizing but also in the direction of a more permissive labor laws (for a large flexibility in individual contracts, for limitation of collective bargaining, against minimum wages). In the same time the stability is presumed to be a direct result of a labor market situation (e.g. monopsony; high unemployment in profession or region): there are no better alternative for unhappy employees. So the employees have no alternatives, they are "captive" and they must accept the terms of the new deal.

Higher net profits can be further obtained by adopting measures like: changing suppliers and using cheaper substitutes; outsourcing part of the production and distribution as well as collect the profit in countries with low rates taxation. And all this are attained within the same level of total income and production, only by lowering costs. Such practices that ensure lower spending for the moment can be easily imitated by competitors (in non-monopolized industries). Thus, the market advantage can be easily counteracted and therefore the positions on the market cannot be significantly improved. The benefits of the firm as an entity are too small in these terms. The major winners are the technocrats, who can provide the image of a success, tangible profits (even if the efficiency is not truly improved) and keeping of their positions, along with substantial rewards.

These methods (and the like) are stimulated by several opportunities. We refer to aspect as: lack of rules; incomplete, imperfect or delayed enforcement of regulations; unconditional or discriminatory public aid; rigid and powerless fiscal system; low or delayed response from competitors; the competitors' failures to protect own practices from copying; dominant or important position in industry; significant market and monopoly power on outputs or inputs markets. All are integrated in 3 synthetic realities: (1) improper or limited public interventions; (2) inability of effective competitors and (3) market position. They could offer permanent advantages (in some cases) or at worst for a period of time (larger these period is, more rationality for an active response).

The same realities act in opposite direction when the responses of the market's actors and society are strong, as well as there are problems in the process of implementation (internal organizational structure; form, intensity and moment of responses). Probably the risk of high transactional costs (e.g. related to engage additional workers after a previous lay-off) is the major treat for adopting a cost' cuts policy (Coase, 1937; Svzzero and Tisdell, 2001).

## 3. Competition simultaneously creates both wealth and poverty

The explanation for these differences lies in the fact that competition has most of the time contradictory effects. As already mentioned, free competition normally is the key factor in increasing and diversifying production and improving efficiency. But to the same extent, it can be considered, in the modern and contemporary period, responsible for severe negative consequences such: alienation from work, alienation from nature and peers, excessive valorization of material elements (perceived as visible outward signs of success), broaden and deepens the inequalities and social exclusion. And in the name of success, important sacrifices are made (individual when we talk about competition in a strict sense and collective when we talk about competitiveness). In order to have a more precise image of what competition is in a social context, we will try in the following to capture some fundamental aspects in terms of its impact.

Let's start with a deeper analyze of the competition' virtues and mechanism with emphasis on these social effects. The optimal allocation takes into account the society as a whole and not in particular the individual optimum. The total resources are optimally distributed on the destinations that lead to the maximization of the global production. The problem of wealth distribution is, if not completely ignored, at least treated in subsidiarity. From this point of view, competition creates and perpetuates inequalities.

An increasing efficiency over time also offers the premises for a decrease in the price level (all other things equal). Even if lower prices are possible in some cases (on long run only based on lower costs), it cannot represents a permanent rule of functioning the competition. We consider that the correct formulation refers not to the nominal level of the prices but rather to its evolution over time in relation with revenues and / or prices of other goods (i.e. real prices). Obviously, the appreciation of the price movement in comparative terms is limited mainly due to the use of average revenues in the analysis, and so the conclusions do not seem to be generalizable for any case. It is clear that those whose incomes do not increase or increase at lower rates (up to inflation) will not face lower real prices. If we add a cutoff in wage level as a part of lowering costs policies, the impact is more devastating over individual wellbeing. A visible result of the last decade is an almost general increase in the risk of poverty for employees. The share of persons who working and have a disposable income below the risk-of-poverty threshold (set at 60 % of the national median equivalised disposable income after social transfers) is higher in the majority of EU countries. It's the case - for instance - for 18 of the UE27 in 2018 compared to 2009 (Eurostat, 2020). In other countries improvements was resulting mainly from state intervention on the level of the minimum wage (as in Romania, where in 2019 the minimum net wage was around 2.5 times higher comparative with 2009) rather than from a more generous salary offer by employers (despite the apparent favorable evolution for employees on post-crisis labor markets). And such evolutions are characteristic for entire after-crisis period! A period of economic growth, when this growth is it presume to be share to everybody and in countries with strong social engagement.

Normally (and for a long period of time that proved to be true) a long run vision over economic activity is the lead idea in a competitive environment (i.e. profit maximization). Considering that the total profit could come from three sources: the normal profit, the supplementary profit and the unfair profit (i.e. unjust, unethical, unlawful), in conditions of a quasi-perfect competition the increase of the profit above the normal level is exclusively the result of what we will called the supplementary profit. This supplementary profit is seen as a positive effect of competition that must be stimulated by society, as opposed to the unfair profit that is required to be eliminated. And here it is presumed that it is the direct result of a level of efficiency (productivity) and a rate of renewal of products and technologies higher than the market average and nothing else. Pursuing to gain or maintain additional (supplemental) profits, firms are stimulated to innovate, developing new products and technologies, permanently perfecting the existing ones, eliminating losses and improving activity's organization. As a result, we expect to have better and cheaper products in a larger variety, as well as economic growth and development, greater productivity and wealth at general level. Not equally distributed but visible for most people even in the absence of any social redistribution. But these results need a period of time (necessary for planning, implementation, obtaining results); the future is uncertain and does not guarantee success for all.

Such a view of competition seems rather an idyllic one, which describe less and less the common practices in today industries. As we already seen, firms are more like governed by a limited (very) short-term vision, which determine it to reduce costs immediately and as widely as possible by any method, as long as quality is not visibly affected and competitors' response is not aggressive and/or based on modernization. It seems that such a perspective is related to the emergence and expansion of the role of technocracy in corporations. In the absence of any control from the society - especially in the conditions of contemporary globalization - practices such as: limiting wage increases, employment of migrants, wage discrimination, widespread use of cheap substitutes for quality raw materials, partial or total outsourcing of production, tax optimization or reduction of services associated with the sale, become more and more tempting and are used on an increasingly large scale.

Governments have to intervene each time when exist signs that players seem to avoid competition or try to charges the inefficiency over prices and to exploit the consumers (Burke *et al.*, 1991) or when social inequalities became too deep and endanger the stability. Such interventions took place for a very long period of time since the beginning of monopolization in the 19$^{th}$ century.

Against the exploitation of employees were gradually enacted laws that prohibited child labor, regulated working time and working conditions, and set minimum wage levels. The working class seems to have been exploited, due to the fact that its material condition has improved too little (or even worsened in certain circumstances), compared to the general level of well-being, which has increased to a much greater extent (The Group of Lisbon, 1995). In order to maintain within tolerable limits the economic and social inequalities, progressive taxation systems were implemented, as well as redistribution mechanisms and social security systems. To combat poverty and social exclusion were designed social assistance programs and institutions, or programs for creating new jobs. The protection of competition was enforced thru the antitrust legislations (against monopoly, anti-competitive practices or to combat barriers to entry) as well as by advertising contents responsibility laws or consumer protection laws (beneficial for producers too, against unfair competitors). Against some externalities (e.g. pollution) environment protection regulations was adopted. Other major problems with an impact on jobs and living standards have never been solved (for example: alienation from work, overwork, or outsourcing of production).

In all these circumstances, it seems that the most affected are those who “lose” in the competitive process: long-term unemployed, employees on minimum wages (insufficient paid), former owners of small businesses that have gone bankrupt, the elderly, the young workers (underpaid), as well as children from the families of these categories or from large families. And the ultimate cause appears to be in many situations the strategies adopted by firms. In other words, the decisions of the technocrats influence the development of the competition in such a way that accentuates the inequalities. Under the same competitive model, the rich will become richer (and often even fewer) and will share with each other more of the economic growth while the rest (more and more numerous) will have a smaller share as time passes. The lack of a rapid state intervention allows the phenomenon to expand and generalize.

Not only such an intervention is in many cases long overdue, but in the current period there is an increasing pressure to relaxing the previously adopted regulations. In the name of free competition, market flexibility (especially labor) and competitiveness, several derogations or legislative changes are demanded (and in many cases obtained). They are the result of a strong lobby from the big companies, of the technocracy, and are meant to reduce costs (e.g. thru externalization, lower average cost with labor). The main targets aimed: the level or the very existence of a minimum wage; maximum working time; the obligation of collective bargaining; simplification of dismissal procedures; reduction of certain technical requirements; elimination or reduction of environmental protection norms; restrictions on import and exports; taxation and tax advantages; and subsidies. Once again there are opportunities to make others (individuals and society) to support a part of firm's real economic cost.

## 4. Concluding remarks

Based on some of the arguments presented, as well as others, in a report on the limits of competition (The Group of Lisbon, 1995), the authors consider that competition - as sole way to of functioning the economic and social mechanisms and in the absence of a positive cooperation (i.e. a pro-market one) at different levels - cannot be a solution for governing the planet. Competition is considered to be an inadequate response to the new realities, especially in the conditions of globalization and the dramatic intensification of resources crises and environmental issues. The role of competitiveness must also be redefined in the light of the new conditions, as it proves not to be an effective tool for solving many problems such as: chaotic urban development; quality and pricing of community services; job creation in line with demographic developments; health care system; uneven development of economic activities between the regions of a country; increasing influence of the lobbying system on the elaboration and adoption of public policies; (unfair) competition in tax reduction and other public aids for businesses; the fiscal optimization practices; and imbalanced distribution (and inequitable) of wealth between countries and within countries (a phenomenon visible even in developed countries). Moreover, the obsession of competitiveness is not only wrong but also dangerous. It is wrong because it have less or none fundament from an empirical point and dangerous because it distorts the public policies in various fields (Krugman, 1994).

But competitiveness proves to be not capable to harmonize and integrate economic targets (like economic efficiency) with major non-economic task and the fundamental desideratum to preserve the social system (e.g. environmental conservation, social justice, democracy and diversity). Obviously we need to find a more effective and sustainable alternative for durable development. (The Group of Lisbon, 1995).

Even if we do not share such an anti-competitive view, we cannot ignore the evidence of the contradictory consequences of the competitive process. The competitive mechanism (as well as competition as a whole) must not be removed, it must be just rethought and rebuilt according to new realities; and the states interventions - individually and especially internationally concerted - must not only be accepted, but understood as an urgent necessity.

Can we create something more like a social market? A market based on a long-run equilibrium with a socially controlled quality of goods and a fairer optimum. An optimum also determined by reallocations to the disadvantaged categories whenever the resulting social benefits are superior. Here we have in mind the total utility acquired by a higher consumption (after redistribution compared to the initial situation), the capitalization of otherwise stored resources, the increase of the aggregate demand and thus the stimulation of the economic growth.

Such a socially constructed optimum also implies (and is not possible in the absence of) an extensive cooperation, as well as a generally accepted agreement on the pressing (global) problems. To some problems free competition offer perhaps better solutions, to other the cooperation is more likely to resolve them. But competition and cooperation have always coexisted. Despite the selfishness gene (as sociobiology derives it from Smith's social egoism combined with Hobbes's general confrontation in a Darwin background) and the survival of the fittest, man has been, is and will remain a social being, and so cooperation is an objective needs and a value in itself. We were born to cooperate just as we were born to compete.

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