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## **The Myth of the Level Playing Field**

**by Sam Bostaph**

One of the catch phrases of the day is “a level playing field.” Some businessmen are using it to refer to the competitive situation in which they would prefer to be, but allege they are not for some reason. And, not surprisingly, the reason they usually give for not having “a level playing field” is that a competitor has some special advantage. It may be lower costs of production, patent or copyright protection, larger size, greater financial resources, brand-name recognition, being part of an “old-boy” network, or any of a myriad of other circumstances that restrict the profits or growth of the complainant.

Also not surprising is the usual suggested remedy — government intervention to the advantage of the complainant or to the disadvantage of his competitors. Domestically, small U.S. retailers have complained that their hiring costs and employee compensation expenses are higher than those of larger firms, such as Wal-Mart, and called for increases in the minimum wage. Supposedly, this would increase the costs and prices of the larger firms, thus “leveling the playing field” for the smaller firms that compete with them.

Businesses that compete against imports, such as orange growers in Florida or shrimpers in Texas, have complained that the production costs of foreign growers of oranges and shrimpers are much lower than domestic costs and have called for high tariffs or quotas on imports of those products to “level the playing field” so that domestic producers are at no price disadvantage.

Locally owned ethnic minority contractors in U.S. cities now ordinarily request set-asides for government projects, arguing that small, ethnic minority- or women-owned firms cannot compete in pricing and services against large national or international contractors for project construction or operating contracts. Only set-asides will “level the playing field.”

Common to these examples and others is the fact that the intervention requested will either raise costs of production, and thus the prices of the products in question, or restrict quantities available to consumers, and thus raise prices — or just directly raise the prices charged to consumers and received by “competing” firms.

From the consumer's point of view, higher prices and restricted product availability are hardly advantageous; however, that is not the main argument of this article. The main argument is that business is not a game and "the level playing field" is a myth. No such thing exists, nor can exist, in business — or in everyday life, for that matter.

### **Business and zero-sum games**

Although sports and military analogies are often used when discussing business activities — particularly those involving competition among individuals, firms, or industries — the analogies are almost always inappropriate. Sports competitions and military engagements are zero-sum games. Points lost by one individual or by a team in a sports contest are gains to the winner. Objectives or positions achieved by one side in a military battle or campaign are the same as those lost by the opposing side. That's one of the reasons that sporting activities, especially team sports, are good preparation for military tacticians and strategists.

Business activities, especially those involving competition, are not zero-sum games. Instead, they are almost always net value-creating in nature. The purpose of business is profit; the means is the garnering of sales revenue in excess of costs of production. Profitable businesses in an economy free of government interventions are those successful at channeling resources from lower-valued uses into higher-valued ones, as shown by the excess of sales price over the resource costs of producing the commodities in question. Competition mainly takes the form of price competition, enabled by an emphasis on decreasing the costs of production, improved marketing, and new-product development.

From the consumer's point of view, this means the greater availability of an ever-increasing range of products at lower prices. The consumer is not a spectator at a sporting contest, receiving value from observing the competition itself; he receives value directly from the "winning" competitor in return for the price he pays for the product. Rather than from all firms' charging the same price because their costs are the same or because there is a government-imposed floor price, the consumer benefits from the superiority of some firm or firms at lowering costs, and thus prices, below those of competitors. Instead of a "level playing field," the consumer benefits from a field tilted to the favor of one or the other of competing sellers by the successful seller himself.

### **The law of association**

In fact, in an intervention-free market, this is sure to happen as a result of the Ricardian "law of comparative advantage," the more general form of which was termed the "law of association" by Ludwig von Mises. Mises showed that the production of value according to the law of association not only benefits consumers, but increases the efficiency of all participants in the economy in their use of resources to create value. Understanding this economic law is simple;

the historical acceptance of it and its implications have proven politically difficult because of the opposition of those who clamor for “a level playing field.”

The law of association is an extension of the social division of labor that naturally occurs in a market economy because of the great increases in productivity that it makes possible. Even a frontier family in a wilderness benefits from the division of labor within the family because it makes the family more productive. The family also benefits from the circumstance that, in assigning tasks to individual family members, some members are more suited to perform certain tasks than others. They are said to have an “absolute advantage” over other members of the family in carrying out a particular task. The association of persons in the family makes it possible to take advantage of this fact in the assignment of tasks.

In a market economy of producing individuals who associate through trade, the same is true. Greater value will be produced in total if each production unit specializes in its area of absolute advantage. The law of association comes into play when a comparison between the productive abilities of any two persons or any two productive organizations reveals that one of them has an absolute advantage in all activities being compared. How then shall specialization through the division of labor in production take place in order that the greatest total value is produced?

The answer lies in discovering the task in which the absolute advantage of the superior producer is greatest over that of the inferior one. That is the area of his comparative advantage — the area in which his relative productivity advantage is greatest. If he specializes in it, while the inferior producer specializes in the area in which he is least inferior, total value produced will be greater than if the superior producer did all tasks or if both did not specialize, but produced in isolation. Textbook demonstrations of the law are typically numerical, but an understanding of the law and its implications can be gained from considering the following simple example: If a dentist is not only skilled in dentistry, but is also much better at auto repair than his mechanic (who was at the bottom of his class in dental school, couldn't build a practice, and became a mechanic instead), it is more productive for each to stick to his respective profession than for the dentist to do some of the mechanical work on his car at the cost of patient care, while the mechanic does (poorly) some of his own dentistry at the cost of car repair. To do all his mechanical work as well as practice dentistry during the same workweek would be an even worse outcome in terms of value produced by the dentist. The same is true of the mechanic.

### **Consequences of intervention**

What does the notion of “the level playing field” have to do with this example and with the law of association? Government interventions to create a “level playing field” prevent the law of association from determining who produces what. Suppose that our auto mechanic really wanted to practice dentistry but couldn't keep patients because of the competition from our more

highly skilled dentist. He might lobby the city or the state to limit the number of patients that any one dentist could treat so that this would “level the playing field” for other dentists like himself by providing them patients. After all, some dentists have the “unfair” advantage of being more skilled than others and thus are more able to attract and keep patients than others. The consequent deleterious effect on the value created by dentistry should be apparent.

Also apparent is that the “level playing field” would eliminate key elements of price competition and product-quality improvement. Why should any dentist compete for patients in the presence of a quota? “Leveling the playing field” eliminates competition rather than enhancing it.

In fact, the quota system can be expected to increase prices for dentistry. The more-skilled dentists are more in demand, but each is restricted to a quota. If they can individually increase their prices to eliminate the excess demand for their services, they will. The less-skilled dentists have no incentive to decrease their own prices because they need not do so to attract the patients driven into their arms by the quota system and the higher prices of those dentists in greatest demand.

This example illustrates why “the level playing field” is a myth. “Playing fields” in the production of economic value are never “level.” Some individuals or firms have absolute advantages; some have comparative advantages. In an intervention-free market economy, each works to secure such a position against his competitors to maximize profits. In fact, competition forces them to do that. The result, according to the law of association, is that the production of economic value is higher than it would be otherwise. All participants in the economy benefit from the greater efficiency in production achieved, except for those who individually would benefit more through governmental extortion of value from other participants.

Nothing in the argument itself changes when we change the context from that of a single market economy to the economy of the world. It does not “level the playing field” to force domestic consumers to pay higher prices to support domestic producers who are at a comparative disadvantage in the production of value compared with foreign ones. It just prevents the law of association from working internationally and thus lowers the total value that can be produced in the world economy. Some domestic firms that lack a comparative advantage in the production of economic value are protected and their resources confined to lower-valued uses, rather than flowing to higher-valued uses in those domestic firms that do have comparative advantages. The fact that the firm must be protected to ensure its survival is a sure sign that its resources would be better used elsewhere.

The “level playing field” myth has the result of supporting policies that make most participants in the market economy worse off in their roles as consumers and producers in order to make some participants better off than they would be without the policies. Life is not a “level playing field.” The law of association shows how it is possible for human beings to obtain the

greatest total value from the resources available to them, including their own individually diverse capabilities. The argument that a more desirable outcome can be obtained in particular situations by policies that “level the playing field” is nothing more than an excuse for an extortion program.

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