

The Darwin Economy?

I was made aware of a new book published with the above title by SMH journalist Ross Gittins on 24 December who wrote a piece in the business pages, [*A little regulation brings out the best for all of us*](#), about it proving that the true father of modern economics is not Adam Smith as most economists would say today but Charles Darwin! The author of the book, Robert Frank, professor of economics at Cornell University, forecast that in 100 years' time the prevailing view would change to that.

To understand Robert Frank's thesis we need to refresh our understanding of competition and free markets. With this fresh view we get a new handle on an old and on-going debate between the Libertarians and those, like us, who argue that varying degrees of government regulation is required.

In terms of the notions of "social darwinism" Frank's thesis could be seen as a new form of social darwinism; however because of the bad associations of "social darwinism" it is probably best not to think in these terms.

To refresh our perspectives or understandings the debate between the Libertarians and the regulators, roughly between the right and the left in politics, is that one side claims that leaving economic life to the free market gives the "best" outcomes - Adam Smith's famous "hidden hand" at work while the other says no that is not all because while competition may start roughly between equal players gradually, usually some players will come to dominate the market; the rich get richer, the poor get poorer and the end result is a scourge of monopolising market players overcharging and delivering poor service. This syndrome is often referred to as "market failure".

While people, including us, on the left have largely given up seeking "socialism" they/we have not given up trying to find some way to intervene to forestall such market failure. The approach has been "regulation". However, simple, direct or rather simple-minded regulation such as imposing price control does not work. Here in Australia, which I think sets an example to the rest of the world, we have come up with a form of regulation which doesn't try to intervene in the market *directly*. We do it *indirectly* by regulating competition i.e. regulating the competitive process. Hence we have a body called by the acronym ACCC - Australian Competition & Consumer Commission. It has often been in the news in battles with the big boys like Coles, Telstra, Woolworths etc. It does things like disallowing mergers and acquisitions which make firms too large and gain too much market dominance and so preventing monopolistic behaviour. Big interests are at stake and consequently ACCC cases are like gladiatorial contests which is why they make news!

From Prof Frank's work it now becomes clear that we, and Adam Smith, are missing an important point. "Darwin's view of the competitive process was fundamentally different," Frank says. "His observations persuaded him that the interest of individual animals were often profoundly in conflict with the broader interests of their own species."

Now I can't do better than cite directly from the SMH article:

Consider the outsized antlers of bull elk. These antlers function as weapons not against predators but in the competition among bulls for females. Since the bull with the biggest antlers gets to mate with the females, while the others don't, the process of natural selection has given male elk ever-bigger antlers.

But big antlers are a big disadvantage...(cut for copyright reasons; click on the above linke to read the remainder on the SMH site).

The Nobel-prize-winning American economist, Thomas Schelling, quotes the case of ice-hockey players. When helmet-wearing is voluntary, no one is prepared to suffer the small competitive disadvantage of wearing one. But, since helmets do increase safety, all players would vote to make them compulsory.

Frank argues that for competition to give rise to collective action problems - wasteful arms races, if you like - is more the rule than the exception. Why? Because in many important areas of life, performance is "graded on the curve". It's not your absolute score that matters, it's your relative score - that is, where you rank in the comp.

"The dependence of reward on rank eliminates any presumption of harmony between individual and collective interests," Franks says, "and with it, the foundation of the libertarian's case for a completely unfettered market system."

Frank says since individual humans' reproductive success has always depended first and foremost on "relative resource holdings" - which males look the best physical specimens and the best providers; which females look the best child-bearers and homemakers - it would be astonishing if the evolved brain didn't care deeply about relative position.

Hence the tendency as we become ever-more affluent for a growing share of our income to be spent on "positional goods" - that is goods or services which, as well as doing whatever it is they are supposed to do, also signal to the world by their expensiveness our superior position in the pecking order.

Frank concludes that the real reason we regulate markets is to protect ourselves from the consequences of excessive competition.

Here is the cartoon which accompanied the printed article - enjoy!

