An Austrian Critique of William Redmond’s “Three Modes of Competition in the Marketplace”

By Jared Billings

ECON 420

12/10/14

**Introduction:**

Competition, as exhibited in the real world, is a factor that influences producer decisions, consumer preferences, and macroeconomic policies. Despite its immense importance, competition is a concept that seems to be up for interpretation. Numerous definitions of competition exist, in both the sense of markets and in the sense of the word itself. Common economic knowledge supposes the predominant existence of seller vs. seller competition in the marketplace. However, some discussion persists as to whether other types of underlying competition exist apart from, and in cooperation with, the seller vs. seller paradigm.

In 2013, Indiana State Professor William T. Redmond published his article “Three Modes of Competition in the Marketplace” in the *American Journal of Economics and Sociology*. In this article, Dr. Redmond points out that thinking of a seller vs. seller mode as the only type of competition in the marketplace is a sort of naïve “institutionalized reflex.”[[1]](#footnote-1) Alternatively, he theorizes that three different modes of competition simultaneously exist in the marketplace. Along with seller vs. seller, Redmond cites seller vs. consumer and consumer vs. consumer as other types of competition.

Redmond’s analysis of these three modes of competition ultimately falls flat when compared to foundational economic theory. In this paper, Redmond’s article will be analyzed and applied against a classic Austrian economic framework. First, competition as a concept and as a process will be defined. Then, Redmond’s modes of competition will be compared to the Austrian concepts that are thought to exist in the real world. Redmond’s analysis not only fails in its compatibility with Austrian concepts of competition, but also fails in respect to his own framework. Seller vs. seller and consumer vs. consumer do exist in the real world marketplace, but Redmond’s definitions of seller vs. seller, seller vs. consumer, and consumer vs. consumer are all incorrectly identified as present in the real-world market, whether existing simultaneously or exclusively.

**Summary of “Three Modes of Competition in the Marketplace”*:***

In order to investigate Redmond’s claims about different types of competition, the assumptions surrounding his claims must be summarized. Redmond’s definition of competition, as well as his final conclusions, must be detailed as well. It is important to note that Redmond only focuses on consumer markets in “Three Modes of Competition in the Marketplace,” while leaving out any extension of his concepts towards business-to-business or business-to-government markets.[[2]](#footnote-2)

Unfortunately, Redmond does not clearly define competition in his paper. Different conceptions and generalizations about competition are alluded to throughout his paper, but no explanatory definition is given. At first, Redmond leaves competition as a subjective term, one which is up to interpretation depending on the circumstance or situation:

The term competition can call to mind different thoughts, depending on how an individual thinks about it. A competition can be a test. For some it appears as an opportunity to succeed; for others the threat of failure looms. In markets, it may mean a salubrious contest to better serve customers, or may mean a ruinous bout of cutthroat price wars..[[3]](#footnote-3)

Redmond first mentions his own opinion on the broad concept of competition when he states: “In a market context, the meaning of competition is usually taken to be a rivalry among sellers.”[[4]](#footnote-4) This loose allusion to competition as a rivalry is the closest Redmond comes to giving competition a full explanation. He frequently uses the phrase “competitive relationships”[[5]](#footnote-5), which exacerbates the notion that competition could be defined as rivalry in Redmond’s view. This view is exemplified when he talks about the seller vs. seller paradigm: “The concept of rivalry among sellers fits well with Adam Smith’s notion that competition was an independent striving among sellers for the patronage of customers.”[[6]](#footnote-6) Once again, Redmond cites competition as a rivalry. Elsewhere in his article, Redmond opens up his loose definition a bit more and refers to competition as “contestability in markets.”[[7]](#footnote-7) Ultimately, one can extrapolate Redmond’s view on competition as such: competition describes relationships, either in terms of negotiation or rivalry.

The first mode of competition that Redmond lays out is the seller vs. seller paradigm. He begins by stating several foundational assumptions for this type of competition. These assumptions are mainly aligned with the neoclassical view of pure competition. The sellers are numerous, faceless, interchangeable, and thought to offer similar products. No seller is large enough to exercise influence on price. Redmond adds that sellers compete in a non-collusive manner. Overall, these sellers are price-takers and consumer sovereignty prevails. Thus, the consumer benefits from this type of competition.[[8]](#footnote-8)

Redmond spends generous effort building the framework of seller vs. seller competition; however, he ultimately ends up disregarding it entirely: “Most real markets deviate from the ideal of pure competition, but under conditions known as workable competition, consumer benefits are thought to be retained.”[[9]](#footnote-9) Redmond believes his initial framework of seller vs. seller competition does not exist in the real world; instead, new conditions, called workable competition, arise. Under these conditions, the seller vs. seller paradigm is thought to be retained, which creates the environment that is beneficial for the consumer.

The second mode of competition in “Three Modes of Competition in the Marketplace” is seller vs. consumer. This mode is present in a much more social setting, according to Redmond. Seller vs. consumer competition is based on a different set of assumptions than the aforementioned seller vs. seller competition. In seller vs. seller competition, consumers are able to play one seller against another in order to obtain the best price. Redmond suggests that sellers are motivated to obtain higher prices for their offerings and avoid being price takers, in response to consumer efforts to play sellers against each other. This action by the sellers brings about the seller vs. consumer competition. One way sellers can achieve the goal of higher prices and profits, and combat consumer sovereignty, is through product differentiation. Additionally, sellers are able to use trade associations and pooling agreements to avoid direct price competition.[[10]](#footnote-10) These actions by the sellers result in higher prices and profits, which contrasts with the environment of seller vs. seller competition, where prices and profits are reduced. One way the consumer may attempt to mitigate high prices is through brand loyalty, where, despite innovations, differentiation, or advertising from another firm, a consumer will continue to purchase from an original firm, according to Redmond[[11]](#footnote-11)

The last mode of competition put forth by Redmond is the type of consumer vs. consumer. The characteristics for this type of competition are similar to that of seller vs. seller competition: actors are numerous, anonymous, and interchangeable.[[12]](#footnote-12) However, this type of competition is unique because consumers are “takers of symbolic meaning”.[[13]](#footnote-13) A consumer vs. consumer dichotomy can arise in two different ways. First, consumer vs. consumer competition occurs when an item is in limited supply and consumers compete for an available offering, which effectively bids up the price.[[14]](#footnote-14) Redmond offers the specific examples of natural disasters, art auctions, and EBay. The second way that consumer vs. consumer competition can arise is in competition for social status, as prestige is in limited supply.[[15]](#footnote-15) Finally, it is important to note that Redmond describes consumer vs. consumer as noticeably less common than seller vs. seller and seller vs. consumers.[[16]](#footnote-16)

After detailing the three types of competition, Redmond comes to several conclusions. First, he reiterates his main thesis: there are three forms of competition in action in markets, not just one. The three forms are seller vs. seller, seller vs. consumer, and consumer vs. consumer.[[17]](#footnote-17) He then goes on to note who benefits from each mode of competition. In seller vs. seller, the consumer is benefitted. Conversely, seller vs. consumer and consumer vs. consumer both are “less favorably assessed.” In seller vs. consumer, the population benefits from product variety, but that benefit is offset by higher prices and higher profits. Redmond also adds a disclaimer to consumer vs. consumer competition. He says competition between consumers foster envy, covetousness, and wastefulness, since consumers use the market to distinguish themselves.[[18]](#footnote-18)

Lastly, Redmond comes out with what can be labeled as a unique and startling conclusion:

That sellers have fostered a seller vs. consumer mode of competition makes for poor publicity, and is likely to generate unwelcome political attention. It thus behooves the sellers to sustain the belief that they are operating in the conventionally expected seller vs. seller fashion…To maintain and spread the identification of the concept of competition solely with the seller vs. seller mode seems to be the aim of the CEO as well as the ECON 101 teacher.[[19]](#footnote-19)

Essentially, he suggests that sellers are propagandists who see it in their interest to put out the façade that they operate under a seller vs. seller environment. Instead of operating under a seller vs. seller environment, sellers secretly operate in a seller vs. consumer environment.

**Austrian Perspectives on Competition:**

In order to critique Redmond’s conception of competition and its types, a framework of real-world competition must be formulated. This construction of real-world competition must begin with defining competition as an idea. In order to do so, the Austrian thinkers of Murray Rothbard, Friedrich Hayek, and Ludwig von Mises will be referenced. Rothbard, in *Competition and the Economists*, notes Adam Smith’s view of competition. Smith saw competition to mean rivalry between two or more independent persons or firms. Specifically, Smith cites competition between consumers, where consumers bid prices up when demand exceeds supply; or competition of sellers, which bids prices down when supply exceeds demand.[[20]](#footnote-20) This explanation may seem similar to Redmond’s proposals, but Smith ultimately saw competition in a different light.

The investigation into the actual form of competition can be proposed as Israel Kirzner’s question in *Competition and Entrepreneurship*: is competition a situation or a process?[[21]](#footnote-21) Common knowledge would label competition as a situation, and Redmond’s explanation seems to also fall into that category. However, Adam Smith and others disagree. Rothbard goes on to note how Adam Smith viewed competition not as a situation, but as a process.[[22]](#footnote-22) This view of competition as a process is detailed by F.A. Hayek in *Competition as a Discovery Procedure:*

Wherever we make us of competition, this can only be justified by our not knowing the essential circumstances that determine the behavior of competitors…[Consider] competition systematically as a procedure for discovering facts which, if the procedure did not exist, would remain unknown or at least not be used[[23]](#footnote-23)…Market theory often prevents access to true understanding of competition by proceeding from the assumption of a ‘given’ quantity of scarce goods. Which goods are scarce, or which things are goods, [etc.] is precisely one of the conditions that competition should discover: in each case it is the preliminary outcomes of the market process that inform individuals where it is worthwhile to search.[[24]](#footnote-24)

Hayek’s description of competition as a discovery process is much different than how Redmond sets up his own framework. Redmond uses competition largely as a descriptor of the marketplace, and almost sees competition and market as interchangeable words. Hayek, in contrast, looks at competition as a procedure in which facts are discovered and revealed to actors, in one way or another. Furthermore, Redmond’s framework sets up competition in a versus paradigm, where specific competitive relationships are analyzed. On the other hand, Hayek’s framework is noticeably absent of such vicious rivalries. In fact, he goes on to describe competition as a largely non-confrontational phenomenon: “Competition represents a kind of impersonal coercion that will cause many individuals to change their behavior in a way that could not be brought about by any kind of instructions or commands.”[[25]](#footnote-25) In *Human Action,* Ludwig von Mises states that a market is defined by social cooperation and an absence of hostility.[[26]](#footnote-26) There is no compulsion or coercion.[[27]](#footnote-27) The members of society are united in a common venture, which is seen as cooperation. He states that a hostile rivalry is more like biological competition, or competition between animals. Competition in a social context, on the other hand, can be defined as the striving of individuals to attain the most favorable position in the system of social cooperation.[[28]](#footnote-28)

In *Meaning of Competition,* Hayek goes on to mix more specifics aspects of business, such as advertising and innovation, into his explanation of competition: “Advertising, undercutting, and improving/differentiating the goods or services produced are all excluded by definition [from pure competition].”[[29]](#footnote-29) Hayek notes here how these aspects of business are left out of common definitions of competition, yet they are inherently competitive. He then elaborates on this point:

Competition is essentially a process of the formation of opinion: by spreading information, it creates that unity and coherence of the economic system which we presuppose when we think of it as one market. It creates the view people have about what is best and cheapest, and it is because of it that people know at least as much about possibilities and opportunities as they in fact do. It is thus a process which involves a continuous change in the data and whose significance must therefore be completely missed by any theory which treats these data as constant.[[30]](#footnote-30)

Following Hayek’s logic, competition is a much more fluid process than described by Redmond, and there is no objective winner or loser. While different situations may bring about different outcomes, there is no uniform and objective outcome in favor of one party or another. Mises also supports the mutually beneficial nature of exchange in the market: “The exchange of goods and services is mutual; it is not a favor to sell or to buy, it is a transaction dictated by selfishness on either side.”[[31]](#footnote-31)

At this point, competition in terms of its form in the real-world marketplace should be discussed. At a foundational level, it is important to note that an individual is sovereign over his own person and actions, according to Murray Rothbard in *Man, Economy, and State*.[[32]](#footnote-32) Businesses act in the same way, according to J.M. Clark in *Dynamics of Competition*: “Competition presupposes that businesses pursue their own self-interest, and it harnesses this force by their need of securing the customer’s favor.”[[33]](#footnote-33) Not only does this statement elaborate on the fact that businesses act without outside direction, but it also shows that competition is a mutual endeavor where both parties are rewarded. A business’ aim is to meet a customer’s preference in order to receive compensation.

Overall, free competition in the marketplace secures cheapness for the consumer and stimulates progress because of rivalry among producers. This rivalry produces differentiation among producers, a point espoused by Ludwig von Mises in *Human Action*: “In the market economy, competition manifests itself in the facts that the sellers must outdo one another by offering better or cheaper goods and services that they consumer must outdo one another by offering higher prices.”[[34]](#footnote-34) Differentiation is clearly present in the real world marketplace, and that is not negative for the consumers. As stated by Rothbard and Mises, and insinuated by Clark, the consumer directs the market and its producers. Mises completely disregards Redmond’s claim that consumers are helpless against businesses actions such as advertising or differentiation: “The consumer is, according to legend, simply defenseless against ‘high-pressure’ advertising. If this were true, success of failure in business would depend on the mode of advertising only.”[[35]](#footnote-35) If something is offered to consumers that they like better or is cheaper, then they desert their old purveyors.

The benefit of differentiation is not the only major point to come out of Mises’ statement about how competition manifests itself in the market economy. He also identifies two types of competition: seller vs. seller and consumer vs. consumer, stating that sellers compete by offering cheaper products and more appealing services while consumers compete by offering higher prices. Additionally, Mises believes that competition between consumers actually brings about an improvement of an individual competitor’s situation.[[36]](#footnote-36) This is contradictory to Redmond’s conclusion of differentiation bringing about an environment that is less favorably assessed for consumers.

Mises cites only one situation in which it is possible for sellers to discriminate against consumers. In this scenario, sellers discriminate by selling different prices to different consumers. Two conditions exist for this situation to arise. First, a consumer cannot resell the product that he has bought. Second, the total net proceeds of the seller do not lag behind the total net proceeds he would obtain under price-uniformity.[[37]](#footnote-37) Redmond does not touch on this concept at all; however, it is interesting to note how Redmond claims discrimination against consumers occurs in two types of competition, while Mises claims discrimination can only occur in highly specified and unlikely circumstances.

Before making conclusions about Redmond’s work based on the assumptions of the Austrian framework, it is also important to note the Austrian’s views on monopoly and oligopoly, as Redmond touches on these subjects briefly in “Three Modes of Competition in the Marketplace.”Most importantly, Mises notes in *Human Action* that a monopoly price does not actually represent the absence of competition. Catallactic competition is restricted, but the market economy is still in operation, though slightly hindered. All goods compete with each other for preferences.[[38]](#footnote-38) Fritz Machlup, in *Economics of Sellers’ Competition,* brings up the same point. There is a difference between competition between sellers and competition between products. Competition between sellers’ products exists even if there is only one seller in a particular niche.[[39]](#footnote-39) An example of this concept would be the once-prominent railroad monopoly. Today, this monopoly does not exist, mainly because railroad transportation had to compete with other forms of travel for consumer’s preferences. “The bigness and the economic power of the railroad companies did not impede the emergence of the motor car and the airplane,” according to Mises.[[40]](#footnote-40) Another example is an oil oligopoly. As prices increase, entrepreneurs will likely look for other fuel types for transportation. Therefore, competition does not just exist between sellers of similar products but it also exists horizontally across industries.

Several conclusions can be gleaned from analyzing the Austrian framework of competition. First, seller vs. seller competition exists in the real marketplace, and mutually benefits the seller and consumer. Second, consumer vs. consumer competition exists, but not in the way that Redmond describes. Consumer vs. consumer is not a competition specifically in situations of extreme scarcity, but a competition in terms of offering higher prices for every product in the marketplace. Lastly, seller vs. consumer competition does not exist. All evidence leads to the fact that sellers and consumers work together through the market. This it quite the opposite of Redmond’s claim, that sellers and consumers are pitted against each other, resulting in one side winning out.

**Analysis of Redmond’s Modes of Competition:**

Redmond’s framework of competition exhibits several flaws when held up against an Austrian framework. However, his framework also does not hold up according to his own assumptions, as well. The assumptions surrounding Redmond’s seller vs. seller, seller vs. consumer, and consumer vs. consumer types contradict his final conclusions.

Redmond’s first assumption is that the seller vs. seller environment exists in a pure competition-like scenario. However, pure competition, as described by Redmond, does not exist in the real world. Eventually, Redmond states that seller vs. seller does exist in workable competition, but he does not lay out any assumptions for this type of marketplace. The analysis here is lacking and highly contradictory, as Redmond reveals in his conclusions that seller vs. seller likely does not even exist.

Redmond’s analysis of the seller vs. consumer mode is just as lacking as his analysis on the seller vs. seller mode. The basis of this competition type relies on more accurate and real-world market assumptions, but his final conclusions are incorrect. Redmond begins by noting that sellers want larger profits and consumers want cheaper products, which is why sellers viciously compete against consumers, to the detriment of the consumers. However, Redmond fails to recognize the foundation on which the real-world marketplace is built upon: mutually beneficial exchange. Sellers must offer products that are preferred by consumers, and consumers will prefer the products over money. If a seller offers something that a consumer does not want, then a consumer is able to go to a different seller. This concept also applies to Redmond’s dismissal of differentiation and advertising. As previously stated, differentiation and advertising do not come at the expense of the consumer. Consumers are not mindless drones. They have the choice to leave a producer if it does not meet their preferences.

Redmond’s overall analysis falls especially short here, as he sees competition in specific situations, but fails to look at competition in regards to the continuous movement of the marketplace. A consumer may move and go to another seller, which will benefit the consumer in the long run, as well as providing negative feedback to the seller, with which the seller can use to create a better-suited product. If anything, sellers use brands, differentiation, innovation, and advertising to gain an upper hand on other sellers. This is further evidence of seller vs. seller competition, not seller vs. consumer competition, which Redmond theorizes would come about due to differentiation and advertising.

Perhaps one of the more obvious faults in Redmond’s analysis is found within his argument on differentiation in the seller vs. consumer type. Redmond relies on Professor J.K. Galbraith’s *The Affluent Society* in his efforts to paint a skeptical picture of monopolistic competition, differentiation, and advertising. He uses Galbraith to support his theory that movement from a seller vs. seller to seller vs. consumer results in consumer-detrimental environments of monopolistic competition. Furthermore, Redmond attempts to solidify his theory that increased advertising, due to monopolistic competition or oligopolies, raises demand in a process of creating “synthetic desire,” which essentially forces the consumer into a corner when making decisions in the marketplace. In his book, Galbraith states that a blending of competition and monopoly would result in modern predatory advertising through a “misshapen progeny.”[[41]](#footnote-41) Galbraith’s overarching point is “to demonstrate that in our affluent society the important private needs are already satisfied and the urgent need is therefore no longer a further expansion of the output of commodities but an increase of those services which are supplied by the government.”[[42]](#footnote-42)

Galbraith’s book was rendered useless in 1961 by Friedrich Hayek in his article entitled “The Non Sequitur of the ‘Dependence Effect’.” In a rebuttal to Galbraith’s thesis, Hayek states that particular producers certainly cannot deliberately determine the wants of particular consumers. Producers will attempt to do so, but the success of a producer depends on its own actions, as well as the competition’s actions and other factors surrounding the consumer. Essentially, a producer can attempt to shape the tastes of a consumer, but it cannot ultimately determine the tastes of the consumer. [[43]](#footnote-43) Hayek concedes that if a producer could deliberately determine a consumer’s preferences, then Galbraith’s (and Redmond’s) argument would ring true. However, Hayek asserts that this argument is nowhere near credible:

[The] range of choice open to the consumers is the joint result of, among other things, the efforts of all producers who vie with each other in making their respective products appear more attractive than those of their competitors, every particular consumer still has the choice between all those different offers.[[44]](#footnote-44)

Consumers have a myriad of choices due to producers vying to meet the consumers’ preferences. Redmond’s argument that sellers can use differentiation and monopolistic competition to force their way out of a seller vs. seller environment into a seller vs. consumer environment clearly falls flat. The consumer-detrimental environment of seller vs. consumer does not actually exist, following the logic of Hayek. Instead, the seller vs. seller mode is perpetuated by advertising and differentiation, as previously stated.

It is also important to note that competition would persist even if a true oligopoly was formed. As stated by Mises, sellers compete with sellers that sell similar product, but also with other sellers in the larger industry. Therefore, seller vs. seller competition is perpetuated, despite the presence of an oligopoly, and consumer vs. seller competition is still considered to be non-existent.

Overall, seller vs. consumer does not exist, either in the real-world marketplace or in Redmond’s framework. Differentiation is the biggest difference between Redmond’s seller vs. seller type and seller vs. consumer type. However, differentiation actually perpetuates the seller vs. seller mode, and does not come at the detriment of the consumer, contrary to Redmond’s theory. It is important to note that Redmond seems to largely assume competition only occurs on a platform of price, and disregards other aspects of business, such as advertising, innovation, and differentiation, as outputs of competition.

The last type of competition that Redmond focuses on is consumer vs. consumer. Redmond says this type exists in two circumstances: due to scarcity and in pursuit of social status. Mises states that consumer vs. consumer competition exists in bidding up prices when supply is low. This assertion is very similar to what Redmond puts forth; however, some foundational assumptions are noticeably different. Sellers, in fact, are not anonymous or interchangeable. Furthermore, the consumer vs. consumer type revolves around a process instead of physical competition. This process is visible on EBay, which Redmond correctly gives as an example but incorrectly explains. On EBay, consumer vs. consumer competition comes about from seller vs. seller competition, because there are other goods which could be bid upon. Therefore, sellers are still competing with one another for bids. Here, there is coexistence between real seller vs. seller competition and the process of consumer vs. consumer.

Redmond also incorrectly identifies the effects of consumer vs. consumer. He states that this type results in a “less favorable” environment for the consumers, because they are pitted against each other. As a result, the seller is benefitted. In reality, consumer vs. consumer is mutually beneficial. A consumer receives something that they prefer more than the amount of money that they pay, and the seller receives compensation for their product. Additionally, the consumer that loses out on the product does so by preferring that same quantity of money over the product.

Redmond also states that consumers lose out in this type of competition because status, the motivator of consumer vs. consumer competition, eventually fades. He is wrong here as well. Although the product may become outdated, the consumer takes this into account when buying the product. The consumer’s time preference is such that he would prefer the product at a present time instead of a time in the future*.* While the product may become outdated, the consumer still benefits, according to his time preferences.

Lastly, Redmond is wrong to bring ethics into his discussion. As previously stated, Redmond asserted that consumer vs. consumer competition fosters envy, covetousness, and wastefulness. That may be so, but every consumer has different motivations and influences on his preferences. Deterring consumers from making decisions due to a supposed ethical objectivity only moves the marketplace closer to the consumer-detrimental environment brought on by arbitrarily determined preferences for consumers. Consumers are able to benefit from exchange, and should be able to take part in exchange, regardless of the factors that motivate the exchange.

**Conclusions:**

Two sets of conclusions can be drawn from the analysis of competition from an Austrian framework being synthesized with Redmond’s analysis on modes of competition. First, it must be noted that the Austrian conclusions on competition do not line up with Redmond’s conclusions. In the real-world marketplace, under an Austrian framework, seller vs. seller and consumer vs. consumer competition do both co-exist. However, seller vs. consumer does not exist.

Redmond’s conclusions also appear to be contradictory and incorrect when taking into account his own assumptions about the three types of competition. Redmond claims seller vs. seller comes about under conditions of workable competition, yet he ultimately asserts that seller vs. seller is largely non-existent and, instead, is just a façade put up by sellers. However, the Austrian framework supports the existence of a seller vs. seller environment based on competition for consumers’ preferences. Therefore, Redmond’s assertion that businesses are attempting to dupe consumers is incorrect.

Seller vs. consumer, under Redmond’s assumptions, also does not exist. Redmond claims seller vs. consumer arises from seller vs. seller due to differentiation, but differentiation only perpetuates the seller vs. seller environment. Furthermore, the conditions of differentiation benefit both sellers and consumers, unlike Redmond’s assertions.

Consumer vs. consumer, following Redmond’s assumptions, does exist, but there are a few problems with Redmond’s theory. Ultimately, Redmond uses false market assumptions. Redmond’s assumptions closely mirror the assumptions used to describe pure competition. However, consumer vs. consumer exists in the real-world, under conditions unlike pure competition. Furthermore, Redmond wrongly defines the competition of consumer vs. consumer. Consumer vs. consumer competition originally arises from a seller vs. seller paradigm, and can only be represented as such. Finally, Redmond inaccurately predicts that consumer vs. consumer only benefits the seller. In fact, both the seller and consumer are benefitted, due to mutually beneficial exchange.

Redmond’s overall conclusion can also be proven false in yet another way. The overarching conclusion of “Three Modes of Competition in the Marketplace” is that seller vs. seller, seller vs. consumer, and consumer vs. consumer all exist and co-exist in the real world. However, Redmond uses three different types of market assumptions, with each type of competition arising under different assumptions. Following this logic, the three types of competitions would not be able to co-exist. If the real-world marketplace followed any of the three different sets of assumptions, then the other modes would not arise because their native market assumptions are different.

Based on an Austrian formulation of competition and its role in the marketplace, only two types of competition exist: seller vs. seller and consumer vs. consumer. Redmond fails to come to this conclusion. Future research should be completed though, in order to formulate a broader picture of competition. It would be helpful to note how government intervention can mutate seller vs. seller and consumer vs. consumer competition. Both types of competition arise naturally from the free and unobstructed market, but a government hand in the market may force sellers or consumers to act in a certain way which could skew competition. As of now, there are no significant policies which cause sellers to determine consumer’s preferences. However, the creation of such a policy could represent a type of competition similar to Redmond’s seller vs. consumer type. Additionally, similar analysis should be applied to the business-to-business and business-to-government markets. Both are vital parts of the present economy, and an analysis on the competition in the current marketplace would be undoubtedly incomplete with their presence.

Although Redmond’s work does not appear to be popular on a large-scale, his opinions on the relationships between businesses and consumers represent a problem in the larger societal context. Redmond’s thinking clearly sways in favor of consumers, which is followed by an anti-business leaning. This concept can be seen in his last conclusion, as Redmond accuses businesses of purposefully duping consumers. Redmond’s anti-business line of thinking represents a dangerous trend in both political and societal opinion. A more popular example of this opinion resides with the recent winner of the Nobel Prize in Economics, Dr. Jean Tirole.

One of Dr. Tirole’s recent works involved the development of a theory to address the so-called problem that occurs when regulation benefits those who produce goods instead of those of consumer goods.[[45]](#footnote-45) However, this is dangerous thinking. The men and women who work in businesses which produce consumer goods should not be seen as the enemy. These people produce goods which are consumed; and, since these goods are consumed, they are clearly valued by consumers. Regulation should not be aimed to negatively affect those people who produce goods for the benefit of the population. If this thinking in support of regulation continues, entrepreneurs may not be able meet consumers’ preferences, as regulation can hinder production and decision-making processes by adding extra fees and rules

The Austrian framework makes it clear that competition, whether seller vs. seller or consumer vs. consumer, benefits both the seller and consumer. This concept should not be lost on those who hold anti-business leanings. The two co-existing types of competition create a beneficial marketplace for the consumer; therefore, businesses should not be hindered by legislation or activism. If the growing trend of anti-business leanings continues to take hold, then consumers may lose out on a portion of the benefits that they now experience in the current marketplace. Businesses with less opportunities to differentiate, innovate, and improve will not be able to meet consumers’ preferences as well as businesses with free reign to do so. Clearly, the current environment of competition is mutually beneficial to both businesses and consumers. Citizens and legislators alike should make it a priority to nurture this beneficial relationship.

Redmond conclusions in “Three Modes of Competition in the Marketplace” do not represent the true formulation of the marketplace in the real world. An Austrian framework, based on foundational principles of praxeology, paints a much different picture than Redmond. Competition, as found in the real world, is beneficial for both sellers and consumers as they compete against each other horizontally.

Bibliography:

Clark, John Maurice. *Competition as a Dynamic Process*. Washington: Brookings Institution, 1961.

Galbraith, John Kenneth. *The Affluent Society*. Boston, Mass.: Houghton Mifflin, 1958.

Hayek, F.A. "Competition as a Discovery Procedure." *The Quarterly Journal of Austrian Economics* 5, no. 3 (2002). 9-23.

Hayek, F. A. "The Non Sequitur of the "Dependence Effect"" Southern Economic Journal 27 (1961): 1-3.

Hayek, Friedrich. "The Meaning of Competition." Mises Institute. March 15, 2010. Accessed November 15, 2014.

Kirzner, Israel M. *Competition and Entrepreneurship*. Chicago: University of Chicago Press, 1973.

Knight, Frank. *The Ethics of Competition*. New York: Augustus M. Kelley, 1935.

Laffont, J-J. and Tirole, J. *A Theory of Incentives in Procurement and Regulation*. MIT Press, 1993.

Machlup, Fritz. *The Economics of Sellers' Competition: Model Analysis of Sellers' Conduct*. Baltimore: Johns Hopkins Press, 1952.

Redmond, William. "Three Modes of Competition in the Marketplace." *American Journal of Economics and Sociology* 72, no. 2 (2013): 423-446.

Robinson, Joan. *The Economics of Imperfect Competition,*. London: Macmillan and, 1933.

Rothbard, Murray. "Competition and the Economists." *The Quarterly Journal of Austrian Economics* 15, no. 4 (2012): 396-408.

Rothbard, Murray N. *Man, Economy, and State: With Power and Market*. Scholar's Ed. & 2nd ed. Auburn, Ala.: Ludwig Von Mises Institute, 2009.

Von Mises, Ludwig., *Human Action: A Treatise on Economics.* Yale: Yale University, 1949.

1. Redmond, William. "Three Modes of Competition in the Marketplace." *American Journal of Economics and Sociology* 72, no. 2 (2013): 423 [↑](#footnote-ref-1)
2. Redmond, “Three Modes of Competition in the Marketplace,” 424. [↑](#footnote-ref-2)
3. Redmond, “Three Modes of Competition in the Marketplace,”  423. [↑](#footnote-ref-3)
4. Ibid. [↑](#footnote-ref-4)
5. Ibid. [↑](#footnote-ref-5)
6. Ibid., 425. [↑](#footnote-ref-6)
7. Ibid., 426. [↑](#footnote-ref-7)
8. Redmond, “Three Modes of Competition in the Marketplace,” 425. [↑](#footnote-ref-8)
9. Ibid., 426. [↑](#footnote-ref-9)
10. Redmond, “Three Modes of Competition in the Marketplace,” 427. [↑](#footnote-ref-10)
11. Ibid., 428. [↑](#footnote-ref-11)
12. Ibid., 437. [↑](#footnote-ref-12)
13. Ibid., 434. [↑](#footnote-ref-13)
14. Ibid., 432 [↑](#footnote-ref-14)
15. Ibid., 433. [↑](#footnote-ref-15)
16. Ibid., 432. [↑](#footnote-ref-16)
17. Redmond, “Three Modes of Competition in the Marketplace,” 442. [↑](#footnote-ref-17)
18. Ibid., 443. [↑](#footnote-ref-18)
19. Ibid. [↑](#footnote-ref-19)
20. Rothbard, Murray. "Competition and the Economists." *The Quarterly Journal of Austrian Economics* 15, no. 4 (2012): 396. [↑](#footnote-ref-20)
21. Kirzner, Israel M. *Competition and Entrepreneurship*. Chicago: University of Chicago Press, 1973. 91. [↑](#footnote-ref-21)
22. Rothbard, “Competition and the Economists.” [↑](#footnote-ref-22)
23. Hayek, F.A. "Competition as a Discovery Procedure." *The Quarterly Journal of Austrian Economics* 5, no. 3 (2002): 9. [↑](#footnote-ref-23)
24. Ibid., 13. [↑](#footnote-ref-24)
25. Hayek, “Competition as a Discovery Procedure,” 19. [↑](#footnote-ref-25)
26. Von Mises, Ludwig., *Human Action: A Treatise on Economics,* (Yale: Yale University, 1949), 274. [↑](#footnote-ref-26)
27. Mises, *Human Action*, 258. [↑](#footnote-ref-27)
28. Ibid., 274. [↑](#footnote-ref-28)
29. Hayek, Friedrich. "The Meaning of Competition." Mises Institute. March 15, 2010. Accessed November 15, 2014. [↑](#footnote-ref-29)
30. Hayek, “The Meaning of Competition.” [↑](#footnote-ref-30)
31. Mises, *Human Action*, 283. [↑](#footnote-ref-31)
32. Rothbard, Murray N. Man, Economy, and State: With Power and Market. Scholar's Ed. & 2nd ed. Auburn, Ala.: Ludwig Von Mises Institute, 2009. [↑](#footnote-ref-32)
33. Clark, John Maurice. *Competition as a Dynamic Process*. Washington: Brookings Institution, 1961. 9. [↑](#footnote-ref-33)
34. Mises, *Human Action,* 274. [↑](#footnote-ref-34)
35. Ibid. 317. [↑](#footnote-ref-35)
36. Mises, *Human Action,* 386. [↑](#footnote-ref-36)
37. Ibid., 385. [↑](#footnote-ref-37)
38. Ibid., 278. [↑](#footnote-ref-38)
39. Machlup, Fritz. *The Economics of Sellers' Competition: Model Analysis of Sellers' Conduct*. Baltimore: Johns Hopkins Press, 1952. 81. [↑](#footnote-ref-39)
40. Mises, *Human Action,* 276 [↑](#footnote-ref-40)
41. Galbraith, John Kenneth. *The Affluent Society*. Boston, Mass.: Houghton Mifflin, 1958. 42. [↑](#footnote-ref-41)
42. Hayek, F. A. "The Non Sequitur of the "Dependence Effect"" Southern Economic Journal 27 (1961): 1. [↑](#footnote-ref-42)
43. Hayek, “The Non Sequitur of the ‘Dependence Effect’”, 2. [↑](#footnote-ref-43)
44. Ibid., 3. [↑](#footnote-ref-44)
45. Laffont, J-J. and Tirole, J. *A Theory of Incentives in Procurement and Regulation*. MIT Press, 1993. [↑](#footnote-ref-45)