PROFESSOR CHAMBERLIN ON MONOPOLISTIC AND IMPERFECT COMPETITION

In a recent issue of the Quarterly Journal Professor Chamberlin published an article aiming at bringing to the fore "a number of misconceptions either vaguely current or held by specific writers" as to the nature of monopolistic and imperfect competition, and also to show "the dissimilarities" between different theories in the same field. The purpose of the article was thus mainly one of clarification; in fact it revealed the existence of much more far-reaching differences than the present writer would have thought possible in that particular branch of economics which Professor Chamberlin himself so largely helped to create.

In Professor Chamberlin's view, the theory of "imperfect competition" as put forward by Mrs. Robinson and other English authors is something different from the theory of "monopolistic competition" as discussed by himself and his followers. Such differences can be of three kinds. There is, first of all, the difference in terminology—and here Professor Chamberlin lays great stress on the suitability of his own expression. There are, or can be, differences in doctrine—in treatment and exposition, and in the conclusions reached; and such differences, of course, are unavoidable with a new subject, especially in two books which were independently written and published almost simultaneously. Finally, there can be a difference in the subject-matter of the theories, i.e. in the real phenomena with which they purport to deal, and if Professor Chamberlin had a difference in this sense in view (and what else can the term "dissimilarities" imply, as against "misconceptions"?) he certainly has not succeeded in establishing that it exists. If differences of this last type were present, the two

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1 Originally published in the Quarterly Journal of Economics, May, 1938. A reply by Professor Chamberlin (not reprinted here) was published in the same issue.
2 "Monopolistic or Imperfect Competition?", Quarterly Journal of Economics, August, 1937.
3 Ibid., p. 558.
theories could peacefully "co-exist", side by side, just as a theory of interest can co-exist with a theory of wages. But barring this kind of difference, all "dissimilarities" must be in the nature of "misconceptions"; they must all be capable of elimination, once the scientific method employed is agreed upon.

Ignoring for the present the differences of the first type, and denying the existence of those of the third, we are left with differences of the second type; and here Professor Chamberlin presents a truly formidable array. Specifically, he distinguishes between six misconceptions and three dissimilarities, but a careful summary of his paper could subdivide it even more. I hope the reader will excuse me if, instead of following Professor Chamberlin's paper point by point, I deal with the matters raised in a somewhat arbitrary order of my own.

I

In the first part of his paper, as I see it, Professor Chamberlin makes four important points, all closely related to one another. The first relates to the conditions of equilibrium under imperfect competition, the second concerns the relation of market imperfection to the number of firms, the third the relation of increasing returns to imperfect competition, and the fourth the compatibility of freedom of entry with the existence of monopolistic (or imperfect) competition. I shall attempt to deal with them in this order.

1) The first of these is a relatively minor matter and is only mentioned because of its importance in connection with the subsequent points. Professor Chamberlin attacks the view that "'imperfect' and monopolistic competition are in some special way related to the marginal revenue curve", and he criticizes Mrs. Robinson's view that full equilibrium "requires a double (his italics) condition, that marginal revenue is equal to marginal cost and that average revenue (or price) is equal to average cost". "In reality," he argues, "there is no double condition at all; the equation of price with average cost is quite sufficient, because it necessarily includes the equation of the marginal items, whereas the reverse is not true. Instead of containing 'the heart".

1 Loc. cit., p. 558.  
2 The Economics of Imperfect Competition, p. 94.
of the whole matter the marginal curves would appear to be quite subordinate.\textsuperscript{1} This assertion seems all the stranger since two pages later, he takes great trouble to deny it.\textsuperscript{2} It is there made clear that "the solution of tangency [i.e., the equality of average cost with average revenue] flows from certain heroic assumptions which are later dropped, and is to be regarded as only limited direct applicability, being mainly an expository device". It is here asserted, therefore, that what is essential for equilibrium under monopolistic competition is equality of marginal cost and marginal revenue, whereas the equality of the average curves is merely an "expository device".\textsuperscript{3}

"The heart of the whole matter", which places the marginal revenue curve in such an important position, is the relation of price to marginal cost. It is the nature of this relation which distinguishes a state of competition that is pure from one that is impure: in the one case price will be equal to marginal cost, in the other it will be higher than marginal cost. But in order to know the relation of price to marginal cost, we have to know the elasticity of the demand curve at the relevant point, i.e. we have to know the position of marginal revenue. Moreover, the only simple criterion that enables us to distinguish between degrees of impurity in competition is the relative magnitude of price and marginal revenue, i.e. the actual elasticity of demand at the equilibrium level of output. If Professor Chamberlin had borne this in mind—it is not easy to do if one thinks only in terms of average curves—some of his later strictures, as we shall see, might never have arisen.

(2) In the second place, he denies the proposition (an idea which he finds has "an astonishing—and disconcerting—vitality")\textsuperscript{4} that the degree of market imperfection depends on the numbers of firms in any given section of the competitive field, "in the sense

\textsuperscript{1} Chamberlin, loc. cit., p. 559.
\textsuperscript{2} Ibid., p. 561.
\textsuperscript{3} But quite apart from this denial, Professor Chamberlin's statement that "in reality there is no double condition at all" cannot possibly stand. Equality of price with average cost by no means necessarily implies the equality of marginal revenue and marginal cost, as Professor Chamberlin himself was well aware at the time he wrote the Theory of Monopolistic Competition. The one equality only carries with it the other equality in a special case—when the elasticity of the average curves is equal at the same point where their values are equal. The "solution of tangency" is merely an expression of Mrs. Robinson's "double condition" in geometrical terms.

\textsuperscript{4} Ibid., p. 562.
that with larger numbers the demand curves for the individual firms would become more and more elastic until conditions of pure competition were reached".¹ Since this proposition, in my view, is fundamental to an understanding of the theory, his reasoning requires detailed examination. He uses three arguments. The first is based on a confusion between changes in the size of a competitive field, originating on the side of demand, with changes in its "competitive density", originating on the side of supply. The second is based on a misunderstanding of the concept of "density" and of changes in this density. The third—and fundamental—argument is based on a confusion between the slope of a curve and its elasticity.

Professor Chamberlin argues, first of all, that in certain cases an increase in the number of firms need not affect the demand schedules of already existing firms. "If we think of stores distributed over an area, their number may increase by an expansion of area rather than because of a denser population within it."² This is perfectly true but equally irrelevant. In this case, the demand curves of already existing firms remain the same as they were, simply because the increase in the number of firms occurred as a consequence of an increased demand. The proposition which he criticises assumes given conditions of demand, and examines an increase in the number of firms due to the profits made by existing firms. Even if the increase in demand took the form of an increase in the density of population and, in consequence, the increase in the number of firms were associated with a general increase in the elasticities of the demand curves, this would be no more an argument in favour of the proposition than Professor Chamberlin's example is an argument against it.

His second argument deals with "non-geographical problems", and asserts that since new varieties of products always appeal to some new buyers, their effect is analogous to that of the increase in demand in the previous example.³ So long as the new varieties appear on account of a spontaneous increase in the sources of

¹ Loc. cit., p. 569. Professor Chamberlin uses the expression "differentiation of the product" where I used the term "degree of market imperfection". He must, however, have had the degree of competition in mind; otherwise the sentence is meaningless. Nobody asserted, of course, that product differentiation would gradually disappear with a continued increase in the number of firms.
² Ibid., p. 569.
³ Ibid., p. 563.
supply, and not an initial rise in demand, it is quite irrelevant where the new buyers come from. Their effect will always be to raise the cross-elasticities of demand for some of the existing products; and this is all that the concept of a "commodity scale" and of new firms coming "in between" the old ones implies. It is not, of course, necessary that new products should take their place between two existing products; and the example of gas refrigerators and menthol cigarettes completely misses the point. The "competitive field" of the real world is n-dimensional and not one-dimensional. There are a large number of ways in which products can be more or less alike or more or less different. To regard it as "one-dimensional", as Professor Chamberlin's narrow interpretation supposes, is merely an "expositional device", and in no way part of the argument. Had he thought of the problem in terms of the cross-elasticities of demand of competing products that surround any particular product—the only way in which density in any given section of the competitive field can be defined—it would have been obvious to him that an increase in the number of varieties produced, which is not in response to an initial change in demand conditions, must have the effect of increasing this density.

But perhaps the real source of Professor Chamberlin's confusion is found in the last section of the paragraph: "that large or small numbers indicate nothing necessarily as to the degree of substitutability between the products concerned . . . is perhaps most clearly evident from the fundamental proposition that the number of producers in any field depends first of all upon how broadly the field is defined."1 The number of stars in any section of the universe also depends on what we regard as the section. But not so with the density of stars. And in the argument under discussion, large or small numbers were always meant to refer to a given section, i.e. they meant to imply differences in density.

We now come to Professor Chamberlin's last argument in this connection, which is the really crucial one. Even if we assume that the products come "closer together", with a larger number of producers, he argues, "the result is not necessarily a closer approach to pure competition".2 "If high profits lead to an increase in the number of sellers, so that the curve moves to the left, it will

1 Ibid., p. 563.  
2 Ibid., p. 564.
remain of the same slope so long as the rate at which buyers value convenience does not change.”  

1 In the footnote that is attached to this sentence, he admits that the elasticity of demand at any particular price will “evidently increase as the curve moved to the left”, but proceeds immediately to dismiss the significance of this fact by pointing out that “this does not involve a flattening out of the curve”. Thus the argument which started off by denying the proposition that “curves become more and more elastic with an increase in numbers” ends up by admitting it and introducing by the back door an entirely different one—that curves do not necessarily “flatten out” with an increase in numbers!

The relevant fact, of course, is that such a shift of the curve to the left will increase the elasticity of demand at the equilibrium level of output and will therefore bring price nearer to marginal cost. Hence it will necessarily reduce the degree of market imperfection, in the sense in which this was defined above and in which, I thought, everybody was agreed by now that it should be defined.

1 Chamberlin, loc. cit., p. 564. This refers to an assumed case where producers and their customers are located along a line and the demand curve for the product of any one firm will be a straight line the slope of which is determined “by costs of transport or by the valuation per unit distance put upon convenience”.

2 Ibid., p. 564, note 9. The footnote as printed says “it would evidently diminish”. I understand, however, as is indeed obvious from the context, that the word “diminish” is due to a misprint.

3 I can think of only two explanations for Professor Chamberlin’s position. The one is that he is applying results obtained under the special case of zero costs to the general case. If costs are zero (Cournot’s mineral springs!) it will indeed be true that the shift of the curve to the left will not increase the elasticity of demand at the new output, simply because in this case elasticity must always be unity: the zero-cost producers will always reduce the price by so much as to restore the elasticity to the previous level. If costs are positive, however, a continuous shift of the curve to the left will be associated with a continuous increase in the ratio of marginal cost to price.

The second possible explanation is that he regards the slope of the demand curve, and not its elasticity, as a measure of the impurity of competition. Since under pure competition curves must be horizontal, it is obvious that unless curves get “flatter” we cannot get “nearer” to the purely competitive ideal! If this is the explanation, it is a great pity that Professor Chamberlin should have allowed his geometry to run away with him. The slope of a demand curve, though not its elasticity, is a matter of the scale of drawing. The reason why the demand curves for individual firms in a perfectly competitive industry are horizontal, while the “industry demand curve” is not, is simply that in the diagram for the individual firm units of output are represented on a very much bigger scale than in the industry-diagram. (Even so, the “horizontal” position of the demand curve should never be taken literally. It does not imply that an increase in output by an individual producer can have no effect on price; it is merely a geometrical projection of the assumption that individual producers’ influences on market prices are so small that they regard prices as given.)

If Professor Chamberlin had redrawn his output-scale as the individual firm’s output moved to the left, his desire to see the demand curve gradually flattened out would have also been satisfied. (This is not to deny, of course, that the slopes of the
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It can only be hoped that despite Professor Chamberlin's protest, the idea that elasticities increase as the number of firms gets larger will continue to have an astounding vitality. As we shall see presently, it is a most fruitful idea.

(3) After this it is scarcely surprising that Professor Chamberlin denies an inherent connection between monopolistic competition and increasing returns (economies of scale). He denies my proposition that, if full divisibility of all factors is assumed and consequently economies of scale are completely absent, the free play of economic forces would necessarily establish perfect competition. His argument is again based on the failure of the demand curves to "swing round" to a horizontal position as they are being pushed to the left. He admits that if costs per unit do not rise, as the output of the firm is reduced, the multiplication in the number of firms, and the consequent reduction in the scale of output of each, will not be sufficient to eliminate profits, so long as competition remains imperfect. "But if the demand curves do not become horizontal, as I argued in general above, infinite divisibility leads to an absurd result: the influx of firms would simply continue indefinitely (because there would always be profits under constant costs); and the final outcome would appear to be an infinite number of infinitesimal firms. . . . The conclusion must be that the general assumption of infinite divisibility contributes nothing towards the flattening of the demand curve, and hence [my italics] does not convert monopolistic into pure competition."1

It should be obvious from our previous reasoning that perfect competition no more requires the existence of an "infinite number of firms" in this case than it does in any other case. As the number of firms increases and demand curves move to the left, price necessarily moves nearer to marginal cost (which in this case is also equal to average cost). There comes a point where producers no longer take into account their own influence upon price and proceed to equate price with marginal cost. At this point further movement will cease and pure competition is established. We can demand curves can change owing to a change in the demand function, even if the scale of output is given. But the sense in which demand curves must flatten out in order to approach the conditions of pure competition is only the sense in which the scale of output must be redrawn as actual output gets smaller and smaller.)


2 Ibid., p. 505.
represent this situation by a horizontal demand curve if we like, but this would be no more than a geometric expression of the assumption that producers take prices as given. The important point is that unless economies of large scale, or rather the diseconomies of small scale production, set a limit to the inflow of competitors, or "institutional monopolies" afford peculiar advantages to particular individuals, there can be no equilibrium until producers equate price with marginal costs; and equality of price with marginal cost is pure competition.\footnote{At what point this will be reached—how many firms there will be—depends, of course, upon the attitude of producers, and especially their foresight. If they foresee what is happening, they will bring down prices to the level of costs before their market largely disappears. In that case pure competition will be consistent with a relatively small number of firms.}

It is not suggested, of course, that economies of scale in the real world are ever \textit{completely} absent, that there is such a thing as "perfect divisibility". Professor Chamberlin's statement\footnote{\textit{Loc. cit.}, p. 565, note 3.} that if the assumption of divisibility is inconsistent with the existence of economies of scale, "it is the former, and not the latter, which must give way", really misses the point. The value of this proposition is as a \textit{didactic principle} which enables us to make generalisations about the factors which determine the \textit{nature} of the competitive situation; it is not dependent upon the actual existence of infinite divisibility. If we know that without economies of scale there can be no imperfect competition, we also know that the degree of market imperfection depends, \textit{inter alia}, on the extent to which there are economies of scale. If these economies are rapidly exhausted (at a relatively low level of output) the likelihood of there being a low degree of imperfection in competition is high, and vice versa. It also depends upon the consumers' sensitiveness to product differentiation. If this sensitiveness is great, and in consequence the possibilities of product-variation are large, the economies of scale that are compatible with pure competition must be much more insignificant (must be exhausted more rapidly) than in the case where such possibilities are limited. The proposition is valuable also in enabling us to separate out the \textit{purely economic causes} of "monopolies" from the \textit{institutional causes};
but for an elucidation of this we must turn to Professor Chamberlin’s next point.¹

(4) In his *Theory of Monopolistic Competition*, Professor Chamberlin showed how the equilibrium for a group of firms is determined under the assumption that "entrance to the field in general and to every portion of it in particular was free and unimpeded".² In a subsequent paper I pointed out³ that this implies that every producer *could*, if he wanted to, produce commodities completely identical to those of any other producer, and that the relative costs of producing different commodities for different producers must be the same. Professor Chamberlin, I am glad to see, agrees that "logically, this is what ‘free entry’ in its fullest sense must mean". He proceeds immediately, however, "to change his views in the matter", and to take the view that free entry "is quite incompatible with a differentiated product".⁴ "With respect to the particular product produced by any individual firm under monopolistic competition, there can be no ‘freedom of entry’ whatever. No one else can produce a product identical with it, although he may be able to produce others which are fairly good substitutes for it. Under monopolistic competition, then, there can be freedom of entry only in the sense of a freedom to produce substitutes; and in this sense freedom of entry is universal, since substitutes are entirely a matter of degree."⁵

There are no reasons given for this *volte-face*, beyond the assertion itself, and this makes it rather difficult to guess the underlying chain of reasoning. But let us suppose that two producers *could* produce a completely identical product; that they have no trade names, or that the consumers pay no heed to them; that the

¹ The argument in note 3, p. 561, designed to show that "increasing returns" are neither a necessary nor a sufficient condition for monopolistic competition, contains a logical non sequitur. "They are not necessary", says Professor Chamberlin, "because it is possible . . . that marginal revenue and marginal cost intersect above and to the right of the point of minimum average cost. They are *not* sufficient because a *horizontal demand curve* makes equilibrium within the ‘increasing returns’ phase of the cost curve *impossible."* (My italics.) In plain English this last sentence proves exactly the opposite of what he intended to prove. Since pure competition is impossible with increasing returns, increasing returns must be a sufficient condition for imperfect competition! If the above analysis is correct, then in the absence of institutional monopolies, they must also be a necessary condition for imperfect competition.

² *Monopolistic Competition*, p. 111.
³ *Economica*, February, 1935, pp. 43-4 [pp. 72-3 above].
cost curves of the two producers are exactly the same, but that the demand for the product happens to be not large enough for both producers to produce it on a scale that would leave them a profit on it. The joint cost curve of the two producers lies above the demand curve, but the individual cost curve of either lies below it. Would Professor Chamberlin argue that the product would not be produced at all, or that both producers would produce it, forming a “duopoly” until they are relieved from this sad state by the bankruptcy court? And suppose that our two producers by slightly varying their product (say one producing bath soap with lavender scent and the other with verbena) find that there is a sufficient market for both of them to carry on, and proceed to do so, would Professor Chamberlin really argue that they are inconsistent with the assumptions? Or would he simply say that they do not deserve the name of monopolistic competitors? Unless he supplies more convincing reasons for the incompatibility of full freedom of entry with an imperfect market his new views on this matter can scarcely command universal assent.

I particularly regret that Professor Chamberlin should have changed his views on this point. To have shown that the monopoloid situations of the real world are quite compatible with full “freedom of entry”, that is to say with the complete absence of particular advantages vested in particular people, I have always regarded as one of the great achievements of the Theory of Monopolistic Competition. Up to the publication of this book, the idea of “monopoly” was inevitably linked up, in the economist’s mind as well as in the public mind, with the idea of “privilege”; the behaviour of monopolists might well have been described in terms of marginal curves, but the causes for the existence of monopolists were generally sought in the possession of some unique advantage. Professor Chamberlin’s theory of product-differentiation has shown us that monopoly is purely a matter of degree; and that monopolies of various degrees can exist without any “unique advantage” at all, merely because the demand for a single variety of product is small relatively to the economies of scale in its production. To have shown that the limitations on competition can be due to purely economic causes, to the conditions of
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production and of consumption, and not only to the operations of that sinister group of individuals, the "institutional monopolists", the owners of patent rights and of mineral springs, was a great step forward in economics; and it should be placed to Professor Chamberlin's credit, despite his present disclaimer.¹

Nor would I share Professor Chamberlin's view that the concept of "freedom of entry" is "not very useful and may even be misleading in connection with monopolistic competition".² To be sure, in a strict sense everything is a substitute for everything else, and hence some freedom of entry is universal. It is very important to know, however, how large is the range of substitutes over which, in any particular case, entry is closed, that is, to distinguish between different degrees of such freedom. If "further research is to proceed with sound understanding of the issues", surely one of its objects should be to explore the extent to which institutional causes (restriction of entry) and economic causes (increasing returns) are operative in the formation of particular monopolistic situations. By doing away with the concept of "freedom of entry", we shall no longer be able to distinguish between such "monopolies" as the company store in a company town, which owes its position to privilege, and Henry Ford, who owes his position (largely if not entirely) to the economics of large scale production.

II

In the second part of his paper, Professor Chamberlin discusses the question "what monopolistic competition is, and in particular, how it is different from imperfect competition".³ "Imperfect and monopolistic competition have been commonly linked together as dealing with the same subject. [My italics.] Their similarities seem to be adequately appreciated; their dissimilarities hardly recognized."⁴ A careful perusal of the ten pages devoted to this question, however, fails to bring out any evidence in support of the contention that the two theories relate not to the same subject,

¹ Professor Chamberlin's view, that under full freedom of entry, profits must for all firms be reduced to a minimum (p. 567), ignores the fact that economics of scale offer a protective shield to profits, even if entry is free in the fullest sense. Cf. on this my "Market Imperfection and Excess Capacity", Economica, February, 1935, p. 42 (pp. 71-2 above).
² Ibid., p. 567. ³ Ibid., p. 570. ⁴ Ibid., p. 573.
but to different subjects. What Professor Chamberlin really contends, is that there is a difference in "approach", in economic Weltanschauung, between Mrs. Robinson and himself; but the reader could hardly fail to carry away the impression that here, at any rate, Professor Chamberlin has fallen a victim to the general tendency among producers in an imperfectly competitive market—a tendency he so convincingly describes—and is trying to differentiate his product too far. "Monopolistic" competition, à la Chamberlin, is a "blending between competition and monopoly",¹ while "imperfect" competition, à la Mrs. Robinson, regards "monopoly (in its ordinary sense) and competition . . . as mutually exclusive".² "If I seem to exaggerate at all the importance of this difference in conception between us, it is because I have become convinced that it is the key to an understanding of many other differences in treatment of the problems involved."³

Now I do not think that this difference in fundamental conception really exists. Professor Chamberlin himself produces only two pieces of evidence in support of it. The first is that Mrs. Robinson, after considering the alluring possibility of arranging "actual cases in a series of which pure monopoly would be the limit at one end and pure competition at the other", rejects this as "involving insuperable difficulties".⁴ "The comparison should be made here with Monopolistic Competition, pages 63 and 64, where this view is specifically embraced as the corner-stone of the theory."⁵ The second is that the expression "imperfect competition" avoids the necessity of regarding competition and monopoly as overlapping, and holds "interference with one's [traditional] categories of thought at a minimum".⁶

Unfortunately Professor Chamberlin nowhere defines what he means by a state of monopoly in the sense in which this is different from a state of monopolistic competition. If he did, the difficulties of arranging actual cases as a series between monopoly and competition would have at once been apparent. The only way in which "pure monopoly" could be defined would be a state of

¹ Chamberlin, loc. cit., pp. 556, 570. ² Ibid., p. 573. ³ Ibid., p. 573. ⁴ The Economics of Imperfect Competition, pp. 4-5, Chamberlin, loc cit., p. 574. ⁵ Ibid., p. 574. ⁶ Ibid., p. 572.
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affairs in which the demand curve for the "monopolist" was completely independent from the price of any other commodity or group of commodities; and monopoly in the sense not only does not exist, it is not even conceivable, since it would conflict with our basic assumptions about the nature of human wants.¹

We have seen above that the degree of imperfection of competition can be measured by the elasticity of individual firms' demand curves. But this measurement certainly cannot be used to denote the relative strength of the "monopoly" and "competitive" elements in a given situation, in the sense which Professor Chamberlin has in mind. Quite apart from the fact that it would lead to the absurd conclusion of regarding the limiting case of "pure monopoly" as one where the elasticity of demand is zero (and prices are infinite, I suppose!), it is certainly not true that lower elasticities of demand are a necessary indication of the greater relative strength of "monopoly" elements and a greater weakness of the forces of competition. This merely implies that producers do not think it worth while to compete on the basis of price; it does not imply that they do not, or cannot, compete on a different basis (such as product-differentiation and advertisement). Low elasticities of demand are quite consistent with intense competition, in the ordinary sense.²

¹ Mrs. Robinson made this point very clear in the place quoted by Professor Chamberlin. If reference was made to her "rejection" of regarding actual cases as intermediary between monopoly and competition, the reasons given for this should have also been dealt with.

² I should like to take this opportunity of replying to a criticism made by Professor Cassels in an earlier number of the Q.J.E. (May, 1937, p. 433). Professor Cassels, not without justification, pointed out that in my paper on Excess Capacity, I did not make explicit recognition of the fact that Professor Chamberlin did not intend to apply the term "excess capacity" to all cases of falling cost, but merely to those cases where the market-situation is such that each producer regards his competitors' prices as identical with his. This is perfectly true; but my failure to delimit the phenomenon of "excess capacity" to those cases was not due to an oversight of Professor Chamberlin's distinction, but to a doubt of its validity. It is true, of course, that the extent to which excess capacity may be generated will depend, inter alia, on the elasticity producers believe they have; and it will be all the greater, the smaller is this elasticity. But the point I wanted to bring out was that the demand curve which is relevant here is the "imagined demand curve", and that it is impossible to generalise about the nature of this curve on the basis of the criteria Professor Chamberlin has employed. It is quite possible, for example (a possibility Professor Chamberlin has not taken into account), that precisely in those cases—the presence of the "small group"—which he has reserved for this phenomenon of "excess capacity" the producers should take potential competitors into account, and not (or not only) the price-reactions of existing competitors, in which case the estimated elasticity of demand will be high and the degree of excess capacity will be kept low. Nor would I agree to the view that the distribution of resources which would come about if all producers regarded their competitors'
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It is not "monopolistic competition" which is an "intermediate case between monopoly and competition"; it is the old theory of monopoly which is revealed, in the light of more recent theory, as a doctrine relating merely to a single aspect of "monopolistic competition". What Professor Chamberlin's book has shown us is, not that competition and monopoly are no longer to be regarded as "mutually exclusive alternatives", but simply that the distinction between competition and monopoly is no longer valid. And in this sense, I am sure, Professor Chamberlin's "approach" commands general agreement. Mrs. Robinson herself made this amply clear in her book: "No sooner had Mr. Sraffa released the analysis of monopoly from its uncomfortable pen in a chapter in the middle of the book than it immediately swallowed up the competitive analysis without the smallest effort."\(^1\) I really cannot see where the fundamental difference in Weltanschauung comes in.

If a distinction is to be drawn, it should be drawn on a rather different basis. The man in the street regards the monopolist as the possessor of some institutionally conferred privilege. I have argued before that all monopolies of ownership (whether they relate to a specific mineral, a patent right or a trade mark cherished by consumers, or to the possession of a unique brain) fall logically under this category; and that the degree of freedom of entry depends on the strength of these "institutionally conferred" privileges.\(^2\) There is no reason why the economist, for once, should not make a concession to everyday usage and reserve the term "monopoly" to denote the possession of such privileges.

There remains, finally, the question of terminology. The reader will have observed that in this paper, not without intention, the expressions "monopolistic competition" and "imperfect competition" have been used quite promiscuously. On previous occasions, not realising that such "unmistakable preference" for prices as constant has any claim to being regarded as an "ideal" distribution. There are no objective criteria which would enable us to determine what is an ideal distribution, i.e. the extent to which consumers really prefer "variety" as against "cheapness" in a régime where prices are not everywhere equal to marginal costs. (See Chamberlin, *Monopolistic Competition*, pp. 93-4; Cassels, *loc. cit.*, pp. 436-8.)

\(^1\) The *Economics of Imperfect Competition*, p. 4.

\(^2\) Cf. my "Market Imperfection and Excess Capacity", *Economica*, February, 1935, p. 44 [pp. 73-4 above]. As there pointed out, some degree of "institutional monopoly" would arise from mere buyers' inertia alone.
Monopolistic and Imperfect Competition

a term that is "purely negative" commits one to a particular point of view. I generally used the expression "imperfect competition". The underlying motive was a simple one. For reasons that ought to be obvious, "imperfect competition" is a more familiar expression in England, while the term "monopolistic competition" is more familiar in the United States. That such differences in terminology should persist on the two sides of the Atlantic is, perhaps, regrettable; but so long as they are not confined to Professor Chamberlin's and Mrs. Robinson's theories, but extend to a much wider range of objects, such as lorries, braces and constables (trucks, suspenders and cops) they do not seem to call for special comment. If I may, however, end up with a small constructive suggestion, would it not be possible to find room for the use of both expressions side by side? If my suggestion concerning the use of the term "monopoly" found general acceptance, and "restriction of entry" were regarded as an independent cause of limitations on competition, the term "imperfect competition" could be reserved for situations which are free from "monopoly" elements altogether (i.e. where there is full freedom of entry and the limitation is due to economies of scale in production); while "monopolistic competition" would refer to those situations where the limitation is due to "monopoly" elements (i.e. to restrictions of entry). This would enable us to look upon the "limited competition" of the real world as a blend, in different degrees, between the limiting cases of purely imperfect and purely monopolistic competitions; and it would also be in accordance with the relative importance the authors of the two expressions now seem to attach to these two forces in causing the phenomena they describe.

1 In the Preface to the Theory of Monopolistic Competition, Professor Chamberlin states: "The title of this book is apt to be misleading, since I have given to the phrase 'monopolistic competition' a meaning slightly different from that given it by other writers. Professor Young once suggested 'The Theory of Imperfect Competition', and this, although it had to be discarded as inaccurate, comes close to describing the scope of the subject."