# Competition vs. Rivalry: A Very Important Distinction

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My recent 'back-to-basics' definitions began with a discussion of the term 'school choice'; what it really means and important determinants of differences in 'school choice' policies. Next was a discussion of the problem of widespread 'pricelessness' of school system products, and some resources like teachers; the latter not because they are unpriced, but because of the nearly universal single salary schedule that allows for far too few differences in teacher pay. Today, the subject is 'competition'; probably the most widely used and misunderstood word in school system reform discussions, which creates a powerful and devastating basis for poor policy choices.

In ECO 101 presentations to students, 'competition' is a situation in which the very economic survival of the producers, and sometimes the consumers (depending upon the product), depends on their ability to secure trade on favorable terms. For example, consumers must acquire food and shelter. Producers must sell their product for at least enough to cover production expenses. Also, competition cannot meaningfully exist unless there are differences in what the competitors are attempting to sell. They must differ, at least, in terms of proximity to some buyers. So-called 'perfect competition' wherein sellers are hawking identical goods is not competition at all unless, just for the moment, sellers have exhausted all possibilities for a better product or for product differences that address buyer preference diversity. They match each other's price until they can find a way to make their version different in a way some members of the buying public will value.

Competition means more than the rivalry behavior of existing producers. It includes an increase in the number of producers when the available terms are especially favorable; that is, when profits are higher than in other markets that involve similar resources, skills, and risk, and vice versa when survival-conducive terms are hard to come by.

Most trading terms are called prices that are stated in dollars. Price changes are both a cause and effect of production and consumption choices. That is, prices adjust to changes in supply and demand, and then create feedback effects on one or both. For example, the new fracking technology delivered new supplies of natural gas that led to sharp price decreases, which then prompted many natural gas producers to shift their efforts to oil production, where prices have held fairly steady at high levels. Cheaper gas increased consumption by long-time users, and caused natural gas market entry by new uses; for example, by baseload power plants in place of coal and nuclear generation. Both the exit of some gas producers and arrival of some new natural gas customers has firmed up natural gas prices; i.e. prevented larger price declines.

So, in genuinely competitive settings, there is price change that reflects changes in supply and demand, including, but not limited to, changes in the number of participants. For example, something may increase the perceived importance of a product. Even if that change in perception is limited to the people that already use the product, their additional purchases will allow current producers to sell what they have on hand at a higher price. That ability to charge more will persuade and enable them to increase production, and higher profits for current producers will eventually create additional output from new producers. That competitive market entry will drive prices down until above normal profits are no longer widely available in that market.

***A key point to recognize here is the high frequency with which school system reform discussions contain the term 'competition' when one or more of the key factors described above are absent, often totally***. For example, no state allows chartered public schools to specify an admission price (price control = 'pricelessness') other than zero. So, charter supply and demand do not determine the price paid by customers, or schools' per pupil revenue. The financial viability of a chartered public school depends on its ability to cover expenses from the government's per pupil payments, plus whatever they can secure through donations. Because of price control, recruiting enough students is usually not an issue (no need for rivalry behavior). There is usually a shortage of space. Very few states allow profit-seeking chartered schools, and all regulate entry (there are charter eligibility requirements) beyond the zoning, health, and safety rules that apply to all entities that aim to offer products to the general public.

Many tuition voucher programs impose similar burdens on private schools and may also reduce the ability to compete on the basis of differences in content, through content regulation. For example, in Sweden, the mandated national curriculum, which specifies approximately 95% of schooling content, applies to all schools public and private. Swedish schools cannot differ much except in how they teach the national curriculum.

So, what should we make of all of the alleged ‘competition’ for students between traditional public schools (public school choice) and between traditional public and chartered public schools, and even between traditional public and private schools through school choice programs? Since the conditions of genuine competition are nearly always mostly or wholly absent from those settings, how should we characterize actual behavior aimed at recruiting students, or, more often the potential for, or hope for, such behavior? Since words need to have clear meaning, I suggest the use of the term ‘rivalry’ for situations lacking the conditions that typically surround genuine competition.

I’ll close with some additional examples. School districts do not meaningfully ‘compete’ for students. There are no price or profit differences to inform producer or consumer choice. School district survival is not at stake in the rivalry outcomes. That said, the ~90% drop in the number of school districts, nationwide, in the last ~80 years has greatly diminished what is still a useful rivalry; though not the kind we can rely on for transformational change. Studies have shown that places with more school district choices have slightly better performing school systems. Likewise, survival is not at stake in public school choice, even in the few places where it exists in fact, not just in name. Because of price control of chartered public schools, survival is not even very often an issue for rivalry among chartered public and traditional public schools. The typical chartered public school’s waitlist (shortage because of price control) means that rivalry effects are seen in the length of the waitlist, but not in the chartered public school's revenues. And because of that, chartered public schools with noteworthy waitlists (the norm), have no financial incentive to engage in rivalry behavior. However, they have an incentive to cut corners, even in ways that notably reduce quality. As long as unhappy customers are readily replaced from the wait list, cutting corners reduces costs without reducing revenues. Such corner-cutting has already been a source of some scandalous charter behaviors, but thankfully not yet the level of scandal that would put a long-term hold on the transformational change through conditions that create the needed genuine competition.