

**EXAMINING PUBLIC GOOD IN A DECENTRALIZED
PERFECTLY COMPETITIVE MARKET: A CASE
STUDY OF THE MAHATMA PHULE MARKET IN
PUNE**

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ABSTRACT

Economists have been trying to understand the relationship between social welfare, perfect competition and public goods. The following paper tries to understand the linkages between tow and tries to understand whether a free market that is decentralized to the very last unit has any impact on social welfare, whether positive or negative. We take the case study of the Mahatma Phule Mandai which is marketplace run by the Municipal Corporation of Pune and is one its public goods . We try to understand whether a free market that is against optimizing public good utilisation is good for the overall benefit of the society and worth spending tax payers money.

Keywords : Perfect Competition, Decentralised Markets, Consumer Welfare, Social Welfare, Free Markets, Decentralisation

I. INTRODUCTION

Throughout my college education I heard and read about Perfect Competition as an ideal that all world economic activity seeks to achieve. Ideal is the word because examples of perfect competition in real life are very rare. The closest market that ever comes to perfect competition is the vegetable market or the fish market or any of the street market.

What is Perfect Competition?

Some characteristics of perfect competition are:

- Buyers and sellers are too numerous and too small to have any degree of individual control over prices,
- all buyers and sellers seek to maximize their profit (income),
- buyers and seller can freely enter or leave the market,
- all buyers and sellers have access to information regarding availability, prices, and quality of goods being traded, and
- all goods of a particular nature are homogeneous, hence substitutable for one another.

However my chase for the elusive perfect competition ended at a rather unexpected street. If you have ever been to older parts of the city around the inner lanes of the Shaniwarwada area you would notice that the area is

laced with streets like Taambat Ali and Fanni Ali. Fanni Ali in English means the street where combs are sold. Our guide for the trip told us that during the time when Shivaji ruled, Pune was still a small town centred around the Peth areas this would be how the market would be organised. Various commodities had dedicated streets where vendors selling that particular commodity would come and sell their wares. It was easier for both the buyers and the sellers trade in this way. Since goods were all sold in one place there was hardly place for any technological differences which would allow a particular trader too gain an upper hand. Whether you were an individual buyer or a retailer looking to buy commodities at a wholesale rate to sell them someplace else you would know where to head.

The British came, and as a part of their administrative, erected a structure of concrete to function as the central marketplace of the city. Thus the Mahatma Phule Mandai was born, a government run marketplace for citizens. In such a market place, transportation costs also were nil or close to nil as the goods were made and sold locally. Another interesting character of such markets was that there were hardly any governmental controls over such markets as the market continued to grow even beyond its boundaries as more and more sellers came to sell their products. It is thus a completely decentralized market. This led us to think about decentralised markets and how decentralized markets work. We realized that while perfect competition exists in the market, the market place or the Mahatma Phule Mandai itself is a public good or public service i.e a service that is available for mass consumption without any restriction on who uses it. (Samuelson, 1954)

Atomistic decentralization was discussed in context of public goods and perfect competition William Oakland of Ohio State University (Oakland, 1974). Oakland sought to examine the notion that free markets lead to under production of public goods or they seek to “under provide public goods”. Oakland observed that if the free market is decentralized enough, it will operate “at sub optimal levels” i.e at levels that are not Pareto optimal for welfare maximisation. The paper on its own only seeks to understand the behaviour of decentralised markets but does not comment on the impact of this behaviour. We sought to introduce some value judgement to understand on whether providing such a marketplace, at the tax payers expense for private sellers helps in to improve the welfare of the society in any way. We sought to understand whether this suboptimality is harmful or useful.

While it is generally believed that capitalism and a free market economy is the way to maximise welfare of the society, free markets in the absolute sense of the term are difficult to achieve. One of the few free markets that are available are decentralised markets such as the vegetable markets, local markets etc. A country’s economic policy is decided on the basis of various factors like the political, geographical and social realities of the country. Every decision taken by country will have in view the country’s own good first and the world good later. Hence, our economic ideals like perfect competition and perfect capital mobility are not possible to achieve on a large scale but only a small scales. This a view point presented by one of the greatest philosophers of modern times, Mahatma Gandhi.

II. LITERATURE REVIEW

Perfect competition has of course been studied from many perspective by many economists. However, Joan Robinson’s description sums up the concept of perfect competition in the simplest, yet, the most effective manner. Robinson, described the idea of perfect competition from two perspectives. Perfect competition could

either be a state of market wherein a single seller cannot influence the selling price of goods or it could be a state of equilibrium in which no single seller could make any profits above the normal profits. (Robinson, 1934) Welfare and perfect competition has been studied by many too. These primarily include (Hicks, 1939), (Scitovszky, 1941), (Arrow, 1962)etc. However, in that context, perfect competition, decentralization and public goods were first studied by Oakland (1974). Oakland tried to understand the distribution of public goods in case there is atomistic decentralization, a market that is not controlled by either the government or by a single seller. He stated, “ a system of atomistic competition will lead to sub-optimal levels of public goods, and that those public goods that are produced will be inefficiently allocated. Furthermore, owing to different intensities of use, units of public goods, will command different prices, However, for any particular unit of public good, price will be the same for all individuals.” (Oakland, 1974)

Atomistic Decentralization is further explained well by Nell, (2009,2010)“Each firm independently pursues his own profit, without interference by some central command which sets some target or restrictions that prevent him from doing this. Each firm independently pursues his own profit, without interference by some central command which sets some target or restrictions that prevent him from doing this.”

He explains the requisite conditions for decentralization as follows, “In order to produce the prices and other signals necessary for each of these firms to be atomistic. Decentralization requires the following: (1) Firms are allowed to maximize their profit freely, (2) The system imposes no other regulations or restrictions which interfere with inter-firm contracting toward those ends (3) There are rules of the game in place that aid the maximum freedom of the firms to interact toward their atomistic ends” (Nell, 2010, 2009)

He also explains perfect competition in a decentralized market “A perfect free market is not one in which a static equilibrium has been reached and all firms are perfect price-takers. A perfect free market economy is one in which all firms (and all individuals) are perfectly atomistic and the system is perfectly decentralized.” (Nell, 2010, 2009)

III. DATA, METHODOLOGY AND RESULTS

We sought to understand the working of the market by visiting the Mahatma Phule Market in Central parts of Pune. We quizzed ten flower vendors and five roadside earring sellers. All flower-sellers had homogenous products while all earring sellers had homogenous products too. All respondents were interviewed using a single set of questionnaire. We quizzed all the sellers about their sourcing market and their costs.

All respondents were flower sellers sourced their product from the nearby wholesale market at Shree Shiva Chhatrapati Market Yard, also known locally as Market Yard while the earring sellers sourced it from Mumbai. For flower sellers, transport costs were minimal since all respondents used autorickshaws to transport the flowers. We also know, from interviews, that the municipal corporation charged every stall of a similar size a flat rate rent of Rs. 10,000 per year, regardless of the position of the stall.

In the wholesale market, the price of the flowers follow a single market rate. This implies, that for the market, the unit rent, transport costs and the cost of flowers are more or less identical. This makes their costs more or less identical.

| | | | | | | | |
|-------|----------------|------|---------|--------|------|------|------|
| --"-- | CHILLIES(REDF) | ---- | QUINTAL | 23 | 6500 | 5000 | 5750 |
| --"-- | ASTER | ---- | JUDI | 163000 | 5 | 2 | 4 |
| --"-- | GALARDIA | ---- | JUDI | 114500 | 3 | 2 | 2 |
| --"-- | ROSE | ---- | JUDI | 8150 | 15 | 6 | 10 |
| --"-- | GULCHADI | ---- | 1 K.G. | 5340 | 20 | 15 | 18 |
| --"-- | LILLY | ---- | BUNDLE | 11000 | 3 | 2 | 2 |
| --"-- | SHEWANTI | ---- | 1 K.G. | 2850 | 40 | 15 | 27 |
| --"-- | ZENDU | ---- | 1 K.G. | 4900 | 30 | 20 | 25 |
| --"-- | MOGRA | ---- | 1 K.G. | 3 | 250 | 200 | 225 |
| --"-- | KAGDA | ---- | 1 K.G. | 3450 | 10 | 8 | 9 |
| --"-- | TERDA | ---- | 1 K.G. | 345 | 30 | 25 | 28 |
| --"-- | TULJAPURI | ---- | 1 K.G. | 980 | 15 | 10 | 13 |
| --"-- | BIJLI | ---- | 1 K.G. | 900 | 20 | 18 | 19 |
| --"-- | CHANDANI | ---- | 1 K.G. | 1100 | 20 | 18 | 19 |
| --"-- | GOLDEN/D.G. | ---- | JUDI | 1900 | 8 | 6 | 7 |
| --"-- | GLADIO | ---- | JUDI | 1310 | 35 | 10 | 23 |
| --"-- | BLUE STAR | ---- | JUDI | 125 | 5 | 4 | 4 |
| --"-- | CANTUP | ---- | JUDI | 106 | 5 | 4 | 4 |
| --"-- | LESS | ---- | JUDI | 127 | 5 | 4 | 4 |
| --"-- | TATUS | ---- | JUDI | 65 | 10 | 8 | 9 |
| --"-- | GERBERA | ---- | JUDI | 1200 | 50 | 30 | 40 |
| --"-- | CARNATION | ---- | JUDI | 225 | 60 | 40 | 50 |

Figure 1: A sample of the market rates of flowers available at the Market Yard. This depicts that the entire wholesale market sells flowers at a single price. Source : (Maharashtra State Agricultural Marketing Board, 2003)

All earring sellers quizzed sourced their products from the wholesale market in Mumbai. Care was taken to consider only those earring sellers who sold products similar in price and make. Even in this case, product differentiation was minimal

On the revenue side, we compared the prices of some common flowers at all stalls. We also found that not only did the selling prices in most stall equate, even the profit margins were almost identical and that no stall recieved more than Rs. 2 a profit margin per rose or more than Rs. 105 per kg of lilies (Gulchadi). A similar situation was also observed in the earring markets with cost price and profit margins being almost identical for all respondents. Each earring seller reported a profit anywhere between Rs. 8-10 per unit of earring for every selling sold at the price of Rs. 20. More detailed data could not be obtained.

Thus, in a market of atomistic decentralization, the perfect competition criteria have been made. No seller could influence the market and neither did any particular seller obtain more than supernormal profits.

In case of the earring market, it was difficult to obtain data on the rent. However, in the same market we found that earring seller paid no rent for the usage of space. Most were parked at the side of the road, and even though

they utilised space to sell in the market (no stall was provided by the municipal corporation but they were granted licenses to be able to sell in the market , making them legitimate sellers at the market) .

Thus, we did find that , in case of atomistic decentralization, public goods are inefficiently distributed. The municipal corporaton charges a nominal rent which is less considerably less than the market rate of spaces of similar sizes. However, we did not find any stall in the market that was not being utilised.

As noted by the difference in the rents paid by the flower sellers and the earring seller, it is easy to conclude that the earring sellers had a less intensive use of the space available in the market. Hence, very few earring sellers considered buying a stall in the market, and instead utilised the open air space in the market.

Lastly, the per unit price for all (similar) individuals was the same. All earring sellers who sold similar products a similar price for use of the space (Rs. 0) while all the flower sellers paid the same price, i.e the nominal rent of Rs. 10,000.

IV. CONCLUSION

It might be difficult to gauge whether the welfare is maximised according to Pareto Optimality conditions due to lack of data. However, we do notice that the space in the market was optimally utilised while being cost-effective for sellers at the same time. The market space housed a variety of goods that were sold.

It is not possible to make quantitative conclusions due to the lack of transparent data. However, understanding the market has helped us concluded overall welfare of the society may be close to being maximised the market. While the municipal corporation may not be charging very high rent for the space allocated, it does manage to cover part of the costs for the upkeep of the market. Some small sellers, who do not have the necessary capital to start large business are able to function in the market due to the low rent and few entry barriers required to enter the market. The market maximises the welfare of consumers by providing a place where large number of sellers are available, the reducing profit margins, thereby helping the costs of some goods down.

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