

Abstract: Beyond Allocative Efficiency: How Perfect Are the "Perfect" Market  
Forms?

The paper deals with the social welfare implications of reputedly ideal market forms -- perfect competitions and perfect contestability. It shows that they tend to stimulate poor product quality and adulteration. In addition, they preclude the firm from voluntary undertaking of "socially-responsible" behavior such as avoidance of damage to the environment during the course of production or financial contributions to education, health care and the arts. Another shortcoming of these market forms -- their compatibility with involuntary unemployment -- was, it is shown, recognized early by economists such as J. B. Say and Ricardo.

The analysis shows, in contrast, that these market forms perform well in preventing discrimination by race or sex and in eliciting socially optimal timing of innovation.