

A Reconsideration of R. F. Harrod's Theory of Imperfect Competition : The Transformation in Harrod's Thought

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This paper is an investigation of the evolution of R. F. Harrod's theory of imperfect competition. Its central purpose is to show how Harrod shifted the focus of his theory from the market structure to decision — making by entrepreneurs under uncertainty.

In 1930, Harrod published an article in which he attempted to resolve the problem of the compatibility of competitive equilibrium with decreasing costs. He demonstrated that competitive equilibrium with decreasing costs in the short and long periods might be regarded as 'normal' to certain industries.

Joan Robinson argued in 1932 that long-period equilibrium under imperfect competition must necessarily be associated with excess capacity. Harrod challenged that view, saying that her theory was based on unrealistic assumptions concerning the freedom competitors had to find and enter the market as easily as pre-existent firms. Thus, with his theoretical focus trained on the market structure, Harrod's early criticism of 'the doctrine of excess capacity' centered on

his doubt that 'free entry' was a sustainable assumption in the case of imperfect competition.

Thereafter, Harrod's thinking was heavily influenced by the work of the Oxford Economists' Research Group. He accepted the position that entrepreneurial activities were shrouded in a 'thick mist of uncertainty,' and he tried to dispel some of the 'mist' by understanding and clarifying the intentions of entrepreneurs at the moment when they made pricing and investment decisions. He reconstructed his theory on the basis of extensive empirical observations, and he based his later criticism of 'the doctrine of excess capacity' on actual behaviors of entrepreneurs: full-cost pricing and subjective creation of excess capacity. Thus Harrod's later theory was mainly concerned with the decision-making of entrepreneurs under uncertainty. This paper suggests that the evolution in Harrod's theory corresponded to the change in his approach to the market phenomenon.

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