Mythical Market Monopoly

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This article seeks to expose fallacies of the "Natural Monopoly" concept and general "Market Monopolies" ideology as espoused by mainstream economists. The article will alternatively present alternative classification of Monopoly from an Austrian viewpoint.

Investorwords.com defines a monopoly as a situation where a single organization owns nearly all of the market for a given type of product or service. (Monopoly, 2009) Wikipedia's definition of Natural Monopoly is sourced from various MacroEconomists.

> *A natural monopoly occurs where the average cost of production "declines throughout the relevant range of product demand." The relevant range of product demand is where the average cost curve is below the demand curve. When this situation occurs it is always cheaper for one large firm to supply the market than multiple smaller firms, In fact, absent government intervention such markets will naturally evolve into a monopoly.*
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> *Breaking up such monopolies is counterproductive. The most frequently used methods dealing with natural monopolies is government regulations and public ownership. Government regulation generally consists of regulatory commissions charged with the principal duty of setting prices. (Monopoly, 2009)*

Austrian's like to make a distinction between what's called a Market Monopoly, which we argue a myth, to a compulsory based monopoly sponsored by the State.

What Economics is about

Before we continue it's important to note what economics is about. Economics is about meeting and servicing individual desires.[1] An economy that does not produce things that are actually desired is a failure. Keynesian economists, and various socialists, seem to believe that arbitrary production creates wealth. The fallacy of believing that arbitrary production is good can most easily be refuted using the Broken Window Fallacy. Keynesian economists seem to overlook this fundamental point of economics. They seem to think that arbitrary human action will generate wealth. Austrian economists on the other hand recognize that an economy is nothing if it does not meet the demands of the individual. We believe, in contrast, that Human Action is purposeful. A market is nothing if it does not service the needs of the individual.

This is important to recognize this point before scrutinizing "Market Monopolies".

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[1] Where Mises states; "The ultimate goal of human action is always the satisfaction of the acting man's desire." (Mises, Human Action, 1949)

Define Monopoly

We are taught to believe that a monopoly is a condition where an organization owns too much of a given market. In meeting the criteria of becoming a monopoly we must ask ourselves what the threshold of “too much market” precisely is.

Monopolistic Range

The range at which a company can be considered is arbitrary. What scale does this range apply to? Where is the threshold defined which states how much market is *too* much market? If a milk company sells green milk and is known for this feature are they a monopoly on green milk? Furthermore how can we answer the following questions? Is the Green milk company:

- A monopoly in the Dearie produce industry?
- A monopoly in the Milk Industry?
- A monopoly in the green milk industry?

Where should the line be drawn, and how does this scale get determined? The assignment seems purely arbitrary. In some cases assignment is determined by identifying a “Monopoly Price”. Without getting too off-track Rothbard explains why this is also a fallacy and that a “monopoly price” cannot exist on a free market. (Rothbard, 2004)[2]

How much is too much?

The typical explanation of a monopoly is that it controls too much of the market. Where is this threshold drawn? How is this threshold not drawn arbitrarily?

Without knowing the above it seems that there is much leeway in deciding which firms are considered monopolistic and which firms are not. Ofcoarse we are told that an omnipotent government is supposed to use its wisdom to tell us who is, and is not, acting as a monopoly.

Competition

Some argue that monopolies are anti-competitive. The Austrian viewpoint is that this is not true. A non-compulsory based monopoly cannot force individuals to partake in its services. Furthermore a "Market Monopoly" must compete for the same dollar that a consumer may use elsewhere.

Even the supposed market monopolist must bid away dollars from other industries and sectors. In this manner a market monopolist still has incentive to please its consumer base. A market monopoly must not only compete for the consumer’s dollar it also must compete in the same finite pool of resources as other industries and non-related firms.

[2] See Chapter 10 of Man Economy and State, “Monopoly and Competition”.

Some economists have often attempted to ascertain a monopoly price in contrast to a competitive price. In “Man Economy and State” Murray Rothbard explains that there can be no legitimate way of distinguishing a Monopoly Price from a competitive price.

> *In no case, therefore, on the free market can a “monopoly price” be conceptually distinguished from a “competitive price.” All prices on the free market are competitive. (Rothbard, 2004)*

Compulsory Monopoly

In contrast to a market monopoly who cannot force consumers into involuntary situations a compulsory based monopoly exercises its power of coercion to force people against their will. The State is defined as such, a compulsory based institution. Its entire existence is supported by the means of violence.

Ethical Viewpoint

Compulsory monopolies are clearly inconsistent from an ethics standpoint. Their claim to legitimacy is their noble efforts of keeping evildoers at bay and fostering an environment of freedom. The paradox here is that the State is incapable of protecting freedom and rights without first violating those rights and alienating that freedom.

In the presence of a compulsory monopoly consumers are rendered as serfs under the administration of the State. The State arbitrarily decides which services need to be provided as ‘public utilities’. Public utilities are nothing more than business’s that exist by way of coercion and are conceived arbitrarily into existence by the State.

Where a private firm must compete for your dollar on the open market by persuading you to participate into their services the State compels you by way of violence. The concept is akin to the mafia lord enforcing his reign across his city blocks.

A market monopoly does not practice coercion to force consumers into purchasing their goods or services. It does not alienate the private property rights of the individual. Meriam-Webster online dictionary defines extortion as the act of obtaining property by force. Compulsory Monopolies only can exist by means of extortion. (Extorting) In short, Compulsory Monopolies are unethical as they only exist by way of violence.

D.T. Armentano summarized in his essay “A Critique of Neoclassical and Austrian Monopoly Theory”. Concluding with Rothbard’s definition of Monopoly he notes.

> *We conclude, therefore, that any and* all *State restrictions are "monopolistic," competition reducing, and destructive of con sumer satisfaction vis-à-vis alternative free-market situations. We also conclude, in summary, that this particular theory of monopoly is the* only *theory that meets all the standard critical objections and remains entirely consistent with the general Austrian methodology.*

Economics

Consumer Demand

Normal market firms must follow the rules of voluntary exchange in order to grow and expand. A compulsory based institution is not confined by these rules, whether people want a service or not they will be required to participate as a consumer in the compulsory system whether they like to or not. Because of this method of distribution the State is ill-equipped at reading consumer demand. It cannot measure not know how many people would like its service or not.

The problem created here is whether or not people wanted such a service to begin with. In such a situation large amounts of resources are exhumed to produce a good or service that no one wants. This breaks an underlying principle of the goal of a healthy economy, which is to provide goods and services that consumers actually want.

It is a long time fallacy of the Organized Labor movement, socialists, and others espoused to the labor theory of value that arbitrary production creates economic growth. However, how can it be said that an economy has grown if their products are objects that no one deems desirable, and that people must be forced to take?

Due to this the State's presence in the market can be described as cancerous. In some cases their activities may be benign. Just as cancer slowly eats away at the energy and the life of its victim so do the state's programs. In all cases the state exhumes economic resources and their produced output are service that people must be forced into, not service they would have voluntarily chosen on their own terms.

Economic Calculation Problem

Perhaps the greatest exposition of the calculation problem was presented by Ludwig von Mises in his "Economic Calculation in the Socialist Commonwealth". He explains how the price system is paramount to a functioning economy and how socialist organizations disconnect themselves from this mechanism. (Mises, Economic Calculation in the Socialist Commonwealth, 1990)

Taking the argument one step further we can see that the price system is perverted in the existence of a compulsory based monopoly. The economic rules which typically apply to standard market firms are skewed in compulsory based monopolies.

Typical market firms use various metrics for determining the desirability and success of their products or services. In the free market firms read consumer demand, prices, sales statistics, profits, and other various metrics for determining their general performance. If they do not provide the appropriate quality, quantity, and price their firm will suffer the consequences. It becomes obvious that private firms have various tools they can use for addressing the needs of the consumer.

A compulsory based monopoly lacks these tools necessary for answering even the most mundane business questions. Questions such as:

- How many widgets do we create?
- At what cost do we vend these widgets?
- What is the most efficient way to produce these widgets?
- Who do we provide these widgets to?
- How do we measure our performance?

A compulsory based monopoly has no economic calculation. It cannot read consumer demand because it forces consumers to participate in its services whether they would like to or not. Since, by default, the entire populous may be customers of the compulsory monopolist it cannot be decided accurately who actually needs to use the service and who does not. It simply cannot ascertain which individuals need this specific service or good. The State on this note has no way of accurately measuring how much to produce of said service. It follows than that the state lacks the metrics from which to determine its prices. As is often the case the price is misdiagnosed. Due to bad pricing these subsidized goods become economically distorted and their consumption, depending on the monopolist's policy, will change drastically from extreme under-use to extreme overuse. It also becomes impossible to reference what a free-market alternative would be as all the competition is legally thrown out of existence.

The State also has no fear of competition with existing firms or future firms. It simply creates legal barriers to entry which keep new firms from interfering with its extortion practice. It often does this under the banner of 'Public Safety'.

Meanwhile, even the theoretical 'private monopoly' must still constantly improve its services and remain modern lest a competitor with a more efficient process start taking the business's consumer base. The State need not worry about this. It can legally prevent competitors from entering the market. It then truly has no need to compete whatsoever. The State has no incentive to improve its services or make it efficient. The State already has the consumer base by force; they have no need to persuade consumers by creating a better service.

Bloat

In an economy private firms come and go, they do so because of various fluctuations in human desire and changes in innovation and technology. An economy is dynamic for these reasons. Even a 'Market Monopolist' must constantly strive to improve his product. Whether it is believed or not even the 'Market Monopolist' can go out of business. If he does not meet consumer demand his business will fail and in his absence a different business will rise.

Hypothetically speaking, had the 'Horse and Buggy' Industry been directed under the concerted hands of a market monopolist, are we to assume that it would have survived the introduction of the automobile? Anyone who understands why the horse and buggy industry died also understands why market monopolies cannot exist, and that free markets are dynamic. In contrast, had the "Horse and Buggy' industry been directed under the wise council of the government it would be reasonable to expect that the vending of automobiles would be an illegal competitor in the industry of transportation.

The state's compulsory based monopoly, however, has no ability to suffer the consequence of producing a poor product. Individuals are not awarded the ability to fire the state and secede from their services. Because of this the State's services do not dwindle or shrink. Instead they grow as politicians seek to make their mark in their careers and sponsor the ever growing market cancer.

Over long periods of time the number of monopolistic services provided by the state expands. In each case the monopolies become fixated permanently in the foliage of a given economy. At first we granted monopolistic production of security to the state to secure 'freedom'. We then began to add additional services to that, water, sewage, roads, radio, TV, among others. We are now at a point where Internet is argued as the next major public service. (Conan, 2005)[3]

Technological Stagnation

Another obvious problem with the State's monopoly is the lack of innovation. Indeed state provided services are technologically stagnant. Since there is no need to meet consumer demand the monopolistic service is at the mercy of democracy. A compulsory based monopoly not only has no incentive to improve its services it also does not know when it is appropriate. It cannot read market metric's for determining when to use new technology to improve its own internal process.

Indeed the State's monopolies tend to work counter-intuitively. Whereas private firms use technology to make their process more advanced, the state does the opposite. It fabricates justifications for more public employment due to their inefficiency's. Whereas a private firm must provide more while consuming less, the state consumes more and provides less, and then proceeds to call itself economically stimulating. (Zardkoohi, 1980)

The State as a money conduit

In some cases compulsory based monopolies, or the State, do not actually produce anything at all. Instead it outsources the production of goods to private firms forming fascistic partnerships. This is commonly observed in the State's Department of Transportation. It makes little economic sense, however, for the consumer to purchase a road through the State. If he and his neighbors demanded a new road, or a repair, it would make more economic sense for the consumer to go directly to the road contractor themselves, thereby saving themselves time and money.

Instead the consumers' dollar is siphoned through the State like a money conduit. The consumer pays the State for the service of the road but the State outsources this production to private firms taking its cut beforehand.

Middlemen of coarse often times offer very positive services to the market, the State however cannot be said to have the services of a middle man. A middleman, like Safeway or Kroger's, brings product to a convenient location to the consumer and offers the consumer a selection. I cannot recall the last time the State canvassed to my doorstep and asked me what type of road service I would prefer. The State as

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[3] Listen to Neal Conan < http://www.npr.org/templates/story/story.php?storyId=4618769> (The Internet as a Public Utility, 2005)

a middleman does no such thing; they instead restrict the selection and arbitrarily decide which consumers will receive this good.

Conclusion

Based on the these few observations noted above it becomes clear that private firms can not necessarily be considered monopolies as they still must satisfy the consumer, providing goods and services that people voluntarily want. They still compete on a dollar for dollar level and if mismanaged still run the risk of losing their status to future competitors.

The State however suffers from none of the factors. It has no incentive or need to produce quality goods and services; it has no need to persuade the purchasing dollar of the consumer. It need only force consumers against their will to participate in their services.

Additional Reading and Media

Video

- The Myth of Natural Monopoly
- Monopoly and Competition
- Anti-Trust and Monopoly (With Ron Paul)

Audio

- Fear of Monopoly – Part 1
- Fear of Monopoly – Part 2
- Monopoly and Competition

Literature

- A Critique of Neoclassicla and Austrian Monopoly Theory - http://mises.org/etexts/armentanomonopoly.pdf
- Austrian Monopoly Theory – A Critique - http://mises.org/journals/jls/1_4/1_4_1.pdf
- A Critique of Mises's Theory of Monopoly Prices - http://mises.org/journals/qjae/pdf/qjae6_3_3.pdf
- The Myth of the Natural Monopoly - http://mises.org/journals/rae/pdf/RAE9_2_3.pdf
- Postal Monopoly: Playing by Different Rules - http://fee.org/pdf/the-freeman/carraira0705.pdf
- Chapter 10 of Man, Economy, & State - http://mises.org/rothbard/mes/chap10a.asp

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