MONOPOLY PRICES[1]

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THE CHARACTERISTIC FEATURES OF MONOPOLY PRICES

Terminological Remarks

It is customary to distinguish between competition and monopoly. This distinction suggests the idea that in the case of monopoly there is no competition at all. However, this is not true with regard to the monopolies we have to deal with in a study devoted to the problems of a market economy.

In a perfect socialist system, the state would enjoy the absolute all-round monopoly. The state, as the only owner of all means of production, would be in a position to face every individual with the alternative of either yielding to all the wishes of those in power, or starving. In the same position would be an enterprise owning all of the supply of potable water and all the supply of one of the factors of production required for rendering other water potable.

The monopolies we have to deal with are not absolute monopolies, but relative monopolies. Ultimately, all these commodities compete with one another. Every market commodity has its substitutes. No such commodity is necessary and indispensable in the strict sense of these terms. Competition is a factor in the determination of monopoly prices also.

It is only under this reservation that we are allowed to use the terms competitive price and monopoly price, competitive market and monopolized market.

Furthermore, it is important to realize that we have to deal with monopoly prices, not with monopolies as such. The mere existence of monopoly is irrelevant. Under copyright law, every author or publisher of a book has a monopoly. However, this fact alone does not give the author or publisher any advantage if other conditions do not supervene. It may even happen that they will not find any buyer for their book, no matter how low may be the price they are asking for it.

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[1]Editors' note: Mises marked this previously unpublished paper "Revised, July 1944" (Grove City College Archive [IV S2, F7, D/22–24]). It is his most in-depth treatment of the issue of monopoly prices, providing even greater detail than the later discussion in *Human Action* (New Haven, Conn.: Yale University Press, 1949, pp. 354–76). The editors would like to thank Grove City College for providing access to Mises's papers and Bettina Bien Greaves for permission to publish this paper. The editors have made minor changes in punctuation, usage, and presentation for purposes of clarity.

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The Nature of Monopoly Prices

The Greek word monopoly means that there is only one seller of a certain commodity on the market. The usual definition of monopoly is: Control of the supply of a certain commodity on the part of one seller or of a group of sellers operating in concert.

However, not every seller enjoying a monopoly finds it advantageous to deviate from the potential competitive price. If a rise of the price above the potential competitive price results in a more-than-proportional restriction of the quantity bought by the public, the total proceeds of the seller would drop. He would hurt his own selfish interests by deviating from the competitive price. If at the competitive price of 5 per unit 100 units can be sold, the total proceeds are 500. If a rise in the price to 6 per unit reduces the quantity sold to 80, the total proceeds drop to 480; no "monopoly price" in the technical meaning of this term is more advantageous to the seller than the competitive price. But if at the price of 6 per unit it is possible to sell 90 units, the substitution of the monopoly price of 6 for the competitive price of 5 increases the total proceeds of the seller from 500 to 540.

Under free competition, there prevails a tendency to adjust the quantities of various commodities to be produced and the allocation of the factors of production to the various branches of industry to the wishes of the consumers. What prevents a further expansion of the production of copper or of shoes is the fact that such an expansion would not pay. It would be unprofitable because the prices which could be obtained for the products would not cover the costs of the factors of production required. While the consumers in buying a greater quantity of copper or of shoes are not prepared to recompense the seller for the prices of the required non-specific factors of production, they are ready to make up for the same factors of production, in buying some other commodities. The profit motive pushes the enterprisers toward the production of those commodities for which the demand of the consumers is most urgent. Under the profit motive, the consumers, on a competitive market, decide how much raw material and labor should be used for the production of copper or shoes and how much for the production of some other merchandise.

But it is different under a monopoly price. If some special barriers prevent other people from competing with the monopolistic sellers, a restriction of the production of copper or of shoes that does not comply with the demands of the consumers becomes possible. Although the consumers are ready to pay for additional quantities of copper or shoes at prices which would render an expansion of production profitable on a competitive market, the sellers, sheltered by monopoly, do not expand production if they are better off under a state of affairs which results in a higher income for them with curtailment of production.

Control of supply means that no outsider is in a position to counteract the monopolist's deliberate restriction of supply by offering on the market an increased quantity of the commodity concerned.

There is no need to enter into sophisticated hair-splitting with regard to the question of what should be regarded as the "same" commodity and how the various commodities should be distinguished from one another. It would be useless to discuss whether all silk neckties are to be considered as specimens of the commodity

class "silk neckties" or whether we have to consider every pattern as forming a commodity class of its own. The practical problem that matters is the reaction of the consumer to a rise in the price. If any rise in the price of one special pattern above the competitive price results in such a restriction of demand that the total proceeds drop, such a rise would hurt the interests of the seller. Whether or not we consider his commodity as unique, and his position as a monopolistic one, is immaterial for the market, for the consumers, and for the allocation of factors of production.

The Plurality of Monopoly Prices

On a competitive market there prevails a tendency to make differences in the prices of a commodity disappear. In the long run every unit is bought and sold at the same price. At this price total demand and total supply are momentarily equal. The temporary coexistence of a plurality of prices for the same commodity is the outcome of the fact that the forces making for change are still operating and that a state of equilibrium has not yet been attained.

In the case of monopoly prices the monopolist has generally the choice between different monopoly prices.

Let us consider this example.

Price per unit of the commodity	Amount of units that can be sold at this price	Total proceeds of the sellers
11	40	440
10	52.5	525
9	56	504
8	60	480
7	75	525
6	80	480
5*	100	500

*competitve price

Here we have three possible monopoly prices: 7, 9, and 10. The prices of 7 and 10 are more favorable for the monopolist than the price of 9. He will choose between the prices of either 7 or 10. But if the amount that can be sold at the price of 10 is only 50 and the total proceeds consequently only 500, there is only one monopoly price most favorable to him, namely 7.

In sketching a scheme like the one above, the economist is omniscient. He pretends to know beforehand what the reaction of the public to any price changes will be. In reality, monopolists lack such omniscience. They must discover by speculative anticipation and by trial and error whether there is any monopoly price possible at all, and sometimes, if so, which of the various possible monopoly prices is the most advantageous for them.

It is this uncertainty about future reactions of the public that makes it often practically difficult to draw a sharp line between monopoly prices and competitive prices. The line is, however, sharp indeed. But the only means for a monopolist to find out whether a policy of restraint will be more favorable to him than selling at the

competitive price is to try it. We see therefore many abortive attempts to embark upon a monopolistic price policy which the reaction of the public frustrates.

The Imperfect Monopoly

Let us consider this example:

Price per unit of the commodity	Amount of units that can be sold at this price	Total proceeds of the sellers
8	50	400
7	70	490
6	90	540
5*	100	500

*competitve price

If one man, A, owns 80 units, and other people 20 units, *A* is in a position to embark upon a monopolistic price policy, no matter what the behavior of the outsiders is. He sells 70 units at a price of 6 and gets 420, instead of 400 which he would have received in selling 80, his total supply, at a price of 5. It does not matter for him what the outsiders do. They may continue to sell at a price of 5 or raise the price to 6.

But if *A* owns only 55 units and the outsiders 45 units, it is impossible for *A* to adopt a monopolistic policy. If he sells 45 units at a price of 6 (instead of 55 at a price of 5) he makes 270 only (instead of 275). In this case, a monopolistic policy requires a cooperation of *A* with a sufficiently large group of outsiders.

Duopoly and Oligopoly

The assumptions on which the discussion of the problems of duopoly and oligopoly is built are these: there are two or more sellers on the market. The public's reaction to a restriction of supply would enable the sellers to engage in a monopolistic policy of restraint and price raising. They are all eager to engage in such a policy. But for some mysterious reasons—pride, mutual distrust, or simply spleen —they are not prepared to combine and to adopt a uniform policy. There is no agreement, either open or tacit, between them. Each of them acts on his own. But as the conditions for the establishment of an imperfect monopoly are absent, each is forced in his pursuit of a policy of monopoly prices to take into account the policies of his rivals. Each seller must consider each move in view of the possible counter-moves of his rivals.

The aim of all sellers concerned is the substitution of a monopoly price for the competitive price. Duopoly and oligopoly are therefore not special classes of monopoly prices. They are special classes of the policies adopted on the part of the sellers for the establishment of a monopoly price.

The monopoly price established as a result of duopolistic and oligopolistic rivalries may differ from that which would have been established by a combine between them. Each rival's share in the monopolistic gain may differ from what it would have been under a concerted action. But the outcome is necessarily always either the establishment of a monopoly price or the failure of the attempts to establish any monopoly price.

Some economists devoted great intellectual effort to the study of duopoly and oligopoly. However, we may wonder whether these problems are of any practical importance. It is probable that the sellers concerned will always come at least to a tacit agreement.

The Monopolized Commodity

The commodity the price of which can be made a monopoly price can be:

(1) a consumers' good,

(2) a material factor of production,

(3) a special kind of skilled labor,

(4) a license required for a special kind of production or marketing,

(5) a technological recipe which is secret or the utilization of which is only free to especially privileged persons or firms (e.g., patents, copyrights);

(6) a name or a trade-mark the use of which is reserved to certain people.

Under competitive conditions, the specific factors of production are in the long run used to the extent permitted by the opportunities of alternative uses for the non-specific complementary factors. The poorest soil tilled and the poorest mine exploited do not yield any rent. A further expansion of production in such a way as to exploit poorer soil and poorer mines would not cover the costs of operation.

Under monopoly, a greater part of the specific factors of production concerned will remain unused. The common feature of all instances of monopoly prices is that part of the supply, which under competitive conditions would have been offered on the market, is withheld from the market. The most spectacular and objectionable instance of this withholding is the purposeful destruction of the commodities concerned. It happened mostly with consumers' goods (e.g., coffee) but sometimes also with factors of production.

As a rule, however, the monopolists do not destroy the commodity concerned. Their restraint of trade consists in producing a smaller amount and consequently in not using a greater part of the resources than would have remained unused under competitive conditions.

It is necessary to realize that this restriction of the production of a certain commodity makes an amount of capital and labor available for other lines of production. We will later deal with the consequences of this outcome.

Profit and Monopoly Gain

Profit is a surplus of the price realized in selling a commodity over its cost, i.e., over the amount of money which the seller had to spend for acquiring or manufacturing it.

The price of every commodity is the result of an interplay of supply and demand. If—other things being equal—the quantity offered for sale were greater, the price would be lower. It is therefore permissible to say that profit is an outcome of the relative insufficiency of the supply, i.e., the insufficiency when compared with the supply of other commodities. But this is tantamount to the establishment of the fact that there is no equilibrium in the distribution of the various factors of production

between the various branches of industry. It is, of course, a truism to assert that a state of perfect equilibrium can never be attained in a continuously changing world. In such a world, there can never be stability and equilibrium, although there prevails permanently a tendency toward the establishment of both. However, every change of data disturbs anew the processes tending toward stability and equilibrium. In a progressing society, there can never be stability.

Under special conditions, it is possible for an entrepreneur to add a monopoly gain to his profit. If one entrepreneur or a group of entrepreneurs owns a supply large enough for the establishment of at least an imperfect monopoly, and if the competition of firms newly entering this special field of production is not to be feared for the moment because some time is needed for the production, the establishment of a temporary monopoly price is feasible, by withholding a part of the supply available from the market.

Again and again, people have confused the two things, profit and monopoly gain. It is true that the fact that the supply available at any moment is not larger than it really is, is the outcome of the conduct of entrepreneurs. But no individual entrepreneur is in a position to prevent anybody else from counteracting his restraint by an expansion of production.

The mere fact that an entrepreneur did not produce more of the commodity in question is not indicative of a monopolistic restraint, even if his plant has a capacity for a larger output. The reasons for his not producing more can be twofold: either he lacked the funds for a larger production, or he believed that employment of the rest of his available funds in other lines of business would be more advantageous, i.e., would satisfy more urgent needs of the customers.

The question is always: Can an individual gain by restricting production? If someone else is free to increase output, an individual can increase his profits only by increasing output, not by restricting it.

The main fault of many current doctrines dealing with monopoly and competition is that they shut their eyes to the fundamental fact of economic activity. They do not realize that the factors of production are scarce and that one branch of industry cannot expand other than by withdrawing scarce factors from other branches.

The Role of Increasing or Decreasing Costs

A monopoly price is always a price of a consumers' good or of a factor of production needed—either on account of physical and natural conditions, or on account of institutional and legal conditions—for the production or the marketing of a commodity. If a production aggregate or a whole branch of industry enjoys a monopolistic position, it always owes it to the fact that it has a monopoly with regard to one of the factors of production needed. The specific monopoly gain must always be imputed to the fact that the monopolist owns such a commodity or privilege.

Average cost of production, i.e., cost of production per unit produced, changes as a rule with the amount produced. It may either increase or decrease with the restriction of output. It is easy to understand how this fact influences the monopolist's attitude.

Increasing costs:

Price per unit	Amount of units that can be sold at this price	Cost per unit sold	Total costs	Total proceeds	Total surplus of proceeds over costs
8	40	3.4	136	320	184
7	60	3.6	216	420	204
6	80	3.8	304	480	176
5	100	4.0	400	500	100

The monopoly price most favorable to the monopolist is 7.

Decreasing costs:

Price per unit	Amount of units that can be sold at this price	Cost per unit sold	Total costs	Total proceeds	Total surplus of proceeds over costs
8	40	5.0	200	320	120
7	70	4.8	336	490	154
6	85	4.5	382.5	510	127.5
5	100	4.2	420	500	80

The monopoly price most favorable to the monopolist is 7.

The Role of Difference in Production Costs

Even if entrance into an industry is free to anybody, a monopoly could develop if the differences in production costs are large enough.

Let us consider the case of local monopolies of bulky goods, e.g., building materials or coal. A firm which owns all of the stores of clay needed for the production of bricks in the neighborhood of a city can obtain monopoly prices (1) if and as far as there is no competition of other building materials, and (2) if the freight rates for the shipping of bricks from more distant places are such that a monopoly price can be found within the margin of the competitive local price and the price which would allow competition of those tile-works situated in other places.

Price per unit of the commodity	Amount of units that can be sold at this price	Total proceeds of the sellers
7	70	490
6	90	540
5*	100	500

*competitve price

If the transportation costs are more than one per unit, a local monopoly price of 6 can be established. But if the transportation costs are less than one per unit, a local monopoly would be out of the question.

The same is true with regard to national monopoly prices. The establishment of a national monopoly (mostly through cartelization) is possible if the costs of importation from abroad plus import duties are high enough. A national monopoly is unfeasible if foreign producers are in a position to underbid on the domestic market any possible monopoly price.

Moreover, analogous conditions make it possible to attain monopoly prices for an industry the future prospects of which are at the time deemed unfavorable.

There may exist one plant for the production of the commodity A. Using its full capacity it could turn out 100 units. But 100 units could only be sold at a price of 5; this price would not cover the cost of operation, it would involve a loss and still less would it leave any room for a return of the capital invested in the buildings and the machinery. Conditions being such, there is no need to be afraid of a newcomer's entrance into the industry. The existing plant can restrict its output and sell the quantity produced at a price that not only covers the cost of current production, but may also allow a return of the capital invested in the plant. In some cases, it may happen that the entrepreneur nets above this return a net monopoly gain. If, notwithstanding this fact, no outsiders enter this field of industry, the reason is that they consider the further prospects as unfavorable. They believe that too much capital has been invested in this branch, and that market conditions make investment in other branches more advisable.

It is necessary to realize that this particular case of monopoly prices is unlikely to play an important role within a progressing society. In such a society, there prevails a tendency toward both progressive accumulation of capital and technical improvements. If a newly established plant is in a position to produce at lower costs or to turn out a better product, the advantage of the older plant disappears.

Price Discrimination

In any case in which monopoly prices are advantageous for the monopolist, it would be still more advantageous for him to discriminate among the buyers and to charge every customer the full value of the service. (Moreover, price discrimination can also be favorable to the seller in cases in which any monopoly price would involve a loss.)

There are two facts with regard to price discrimination: (1) it does not result in any restriction of the amount sold; and (2) it brings about a drop in the price of a part of the units sold, and thus makes the commodity or the service in question accessible to customers in reach of whom it would not be in the case of the competitive price.

A doctor is in a position to sell forty units of service in the week. If he were to ask $6 per unit, he could sell ten units; at $2, forty units; at $1, fifty units. The competitive price is $2. At that price people who cannot afford to pay more than $1 must forego his services.

But if out of the forty units twenty are bought by people who would be ready to buy ten units at a price of $6 per unit, price discrimination would mean: ten units are bought at $6 per unit, and twenty units at $2; there remain ten units which can be bought by people who cannot afford to pay more than $1. The doctor makes $90

(instead of $80). The wealthiest of his patients pay more and are forced to restrict their consumption. A class of less-wealthy customers is in a position to be served.

It is important to realize that price discrimination is applicable not only on the part of sellers who are in a monopolistic position, i.e., sheltered against the entrance of outsiders into their field, but also in the field of competitive business. A hotel, for instance, may charge lower rates than those generally charged, to special classes of patrons, e.g., ministers, members of special clubs, or special groups of business. The above mentioned doctor, too, will not be in a monopolistic position.

The Regulation of Competition

The history of economic progress is a record of the substitution of cheaper and better methods of production and of marketing for more expensive methods resulting in less satisfactory achievements. It is a record of free competition.

It is a fact that competition is not always fair. Ruthless people often resort to lies, slander, and calumnies in order to bring competitors and their products into bad repute. They take recourse to blackmail and to sabotage. They procure for this purpose the services of gangsters and libelists. It is one of the tasks of the penal code and the courts to wipe out these pests.

It happens time and again that such criminal methods are applied with the deliberate intention of establishing a monopoly for whose establishment the necessary institutional and economic conditions would otherwise be lacking. There is, however, no need for special anti-monopoly laws to suppress the resort to procedures which are in themselves defined by the penal code as criminal offenses without any regard to the purpose they serve in the individual case.

Meddling with the conditions of competition is an authoritarian policy aiming at counteracting the democracy of the market, the vote of the consumers. If a government interferes for the protection of the railroads against the competition of motor-buses, it curtails the freedom of the individual to use his income in a way that he himself considers the most appropriate. It forces people to subsidize the railroads and to get less for the money spent.

What is euphemistically called government regulation of competition is necessarily always a restriction of the freedom of the consumers to choose the commodity or the service they would choose in the absence of such regulation. The government hinders some enterprises or groups of enterprises from competing as efficiently as they could. Some countries of continental Europe have developed these methods to great perfection, protecting the arts and crafts against the mechanical factory, the small shopkeeper against the big stores and chain stores, the local dealer against the mail order houses, and so on. But such methods are not totally unknown to America, either.

Restriction of competition does not always result in monopoly prices. But its effects are nevertheless detrimental both for the buying public and for the potential competitors excluded.

Are Wage-rates, under Labor-Union Pressure and Compulsion, Monopoly Prices?

All that is valid with regard to monopoly prices of commodities is no less valid for wage-rates, provided the conditions required for the establishment of monopoly prices are present.

If access to a special segment of the labor market is not free, and the demand for this kind of labor is such as to make monopoly wage rates advantageous from the viewpoint of the workers, a monopoly wage rate can be established.

Let us assume that a union has 500 members and that no outsider is allowed to work in the field concerned. At a wage rate of $5, all 500 members can find jobs. At a wage rate of $8, only 400 members can get jobs, while 100 remain unemployed. At the rate of $5, the total payroll would amount to $2,500; at the rate of $8, it would be $3,200. If the union charges all 400 employed members a fee of $1.60, it collects $640, and is in a position to grant to every unemployed member $6.40. Every union member, whether employed or unemployed, makes $6.40.

But if, on the other hand, at a rate of 8 dollars only 300 members could find jobs while 200 remain unemployed, the total payroll would drop from $2,500 to $2,400. The establishment of a monopoly wage of $8 would harm the interests of the union membership.

However, as a rule, labor unions espouse another policy. They do not bother at all about the well-being of those who cannot find jobs on account of the height of the minimum wage rate fixed by their policy. They do not indemnify those who suffer a loss. Thus, every restriction of access to their section of the labor market and every rise in wage rates is an advantage for those who still get jobs at the higher rate enforced by labor-union pressure and compulsion.

In the early stages of unionism, only comparatively small groups of skilled labor were unionized. At that time, the effect of unionism was not mass unemployment prolonged year after year, but an increase of the supply of labor in the non-unionized branches of industry. The counterpart of the rise in wage rates for union members was an increased pressure on the market of non-unionized labor. With the progress of unionization mass unemployment became inevitable.

Thus, labor-union policies, although restrictive, as a rule do not result in wage rates which are technically to be called monopoly rates. But the establishment of this fact does not mean that they are not open to objections on other grounds. Everything which was said above about government regulation that does not result in monopoly prices applies to unions too, as far as they hinder the entrance of people into a special segment of the labor market.

Furthermore, such restrictive union policies sometimes result in the establishment of monopoly prices in a field of business in which competition would otherwise prevail. It may suffice to quote a few lines from a publication which nobody would reproach with "union-baiting." Says T.N.E.C. Monograph No. 21: "The Chicago Master Cleaners and Dyers Association controlled the trade from 1910 to 1930; its power derived largely from the economic strength of four friendly unions—the Laundry and Dye House Drivers and Chauffeurs Union, Local 712 of the International Brotherhood of Teamsters, known as the truck drivers' union; the Cleaners, Dyers, and Pressers Union, Federal Local No. 17742 of the A.F. of L., known as the inside workers' union; and the Retail Cleaners and Dyers Union, Federal Local No. 17792 of the A.F. of L., known as the tailors' union" (p. 296).

THE SOCIAL CONSEQUENCES OF MONOPOLY PRICES

The Mythology of Perfect Competition

The advocates of socialism criticize the system of free enterprise from various positions, and contradict themselves in their criticism.

On the one hand, they scorn the "madness" of the competitive system and complain about "cut-throat" competition. But at the same time the same people contend that in fact competition under capitalism is never "free" and "perfect" and that there are monopolistic elements in all so-called competitive prices.

The same contradictions appear in economic policies. On the one hand, governments are fighting monopolistic restraints of trade by various measures, the best known of which are the anti-trust laws. But at the same time, the same governments are eager to restrict the output of various branches of production or to withhold goods already produced from the market in order to raise prices. Moreover, they are intent upon contracting international agreements for the establishment of world monopolies.

It is an old practice of the foes of civil liberties to attack the concept of freedom from a metaphysical viewpoint. It was long the cherished method of the German advocates of despotism to cavil at the "negativism," "illusiveness," and "emptiness" of the notions of liberty and freedom. It is on their syllogisms that the present-day critics of "free" competition base their statements.

However, the liberal economist's plea for free competition has nothing at all to do with any metaphysical notions, and does not refer to any philosophical explanation of liberty. The old liberals advocated the abolition of laws preventing a man from competing on the market with privileged groups. They wanted to do away with the privileges of guilds and inns, monopolistic companies, and so on. They wanted to give everybody the right to choose his own way of life, his field of activity, and the methods of his work. This was what they had in mind in saying that competition should be "free."

The economists' plea for freedom of competition was exclusively motivated by their concern about the best possible satisfaction of human needs. (Applying a nowadays fashionable slogan, we would have to say: by their concern to attain freedom from want.) A law preventing a man from competing can never improve or increase or cheapen the supply of commodities. What it can achieve is always only protection of less efficient producers against the competition of more efficient ones. The efficient man can do without privileges.

The economists attacked the privileges granted to a less efficient producer in order to protect him against the competition of a more efficient rival. Such privileges, they pointed out, may be beneficial to the privileged. But their gain is the consumers' loss. The opportunities of the consumers to satisfy their needs as well and as cheaply as the state of technological knowledge and of the supply of material resources and of manpower allows are curtailed. If such privileges are granted only to one producer or to small groups of producers, they injure the interests of the great majority to the sole benefit of a minority. But if everybody were to be protected in this way, all are harmed. What a man may profit in his capacity as producer (whether entrepreneur, farmer, or wage-earner) is on the other hand absorbed by the loss he suffers in his

capacity as consumer. Moreover, all are damaged by the fact that the privileges prevent the most efficient utilization of the factors of production available.

The economists' concept of competition does not refer to anything that could be called "perfection." Only people who never grasped the meaning of modern value and price theory can fall prey to such a crude misunderstanding.

It is fundamental for any treatment of competition that competition exists not only among the sellers of the "same" commodity, but among the sellers of many different articles competing with one another for the buyers' money. A firm supplants its rivals not only by selling the "same" commodity at a lower price, but no less by selling "better" commodities of any kind, i.e., commodities which the buyers prefer to those offered by other firms. It is futile to introduce into economic reasoning the concept of a "perfect" competition which assumes that the only means of competition is underselling the "same" commodity.

There is certainly full and real competition on the "market" for actors and singers. However, every high class performer is an individual. He does not compete on account of what he has in common with his competitors, but precisely on account of what distinguishes him from them. And he competes not only with other performers, but no less with a variety of other services and commodities. His success consists not only in attracting people who would have otherwise attended the performance of other actors or singers, but also in attracting people who would have otherwise spent their dollars for drinks, for a new hat, for a book, or for anything else.

Two specimens of the "same" commodity offered for sale may differ with regard to the place at which they are available. A grocer in a distant suburb can charge higher prices for the "same" article if the buyers find the extra cost not too high a price for the advantage of getting it in their neighborhood. In buying, a customer not only looks at the chemical and physical properties of the article, but also at many other things. He may prefer to buy in a cleaner shop or in a store in which service is quicker or more "smiling" than in other shops.

Only in the purchase of commodities the sameness of which can be established in an unquestionable way is underselling the only method of outstripping a competitor offering the same commodity. However, competition is on the wholesale markets of such staple commodities (for instance, metals, chemical compounds, fibers) not more "perfect" than on the retail markets of food, clothes, or shoes.

What counts is always whether a seller is or is not in a position to increase his total net proceeds by restricting the quantity of units sold. This question is not answered in the affirmative by pointing out that every seller could increase his sales by lowering the price asked. If we were to call every price which excludes some potential buyers from buying a monopoly price, all prices would have to be called monopoly prices. An unskilled worker asking 10 cents for a day's work would be a monopolist because the demand for his work would further increase if he were to ask 9 cents only. The distinction between monopoly prices and competitive prices would disappear altogether.

Yet, the distinction between monopoly prices and competitive prices as developed above makes good sense. It is indispensable for a theory of prices because it

would be otherwise impossible to explain the value imputed to patents and copyrights, the essential features of cartel policy, and many other phenomena.

The conduct of every seller can be called a "policy." A job seeker refusing a job offered with a monthly pay of $200 and looking for one more remunerative adheres to a definite policy. So does every other seller reluctant to throw goods away. It is therefore a mistake to see in a "price policy" the indication of a monopolistic position.

Neither is price discrimination necessarily the outcome of monopoly.

It is a fundamental mistake to assume that in every case in which an enterprise does not expand its production and its sales to the limit in which increment costs would exceed the sales price, the latter is monopoly price. This would be true only for the state of equilibrium. But we must emphasize again and again that the state of equilibrium is a hypothetical concept only, although a concept indispensable for every economic analysis. In order to conceive the meaning of economic change, we are under the necessity of constructing the image of a society in which no changes at all occur. But we must never forget that such a state of static equilibrium is purely hypothetical and can never find any counterpart in reality.

In this imaginary state of perfect equilibrium, everything is stable. No changes at all occur. All relevant economic data remain permanently the same. In this stationary world, the total sum that a manufacturer must spend for the purchase of the factors of production required (including the adequate reward for his own labor, i.e., the reward corresponding to the state of the labor market) and for interest of the capital employed would be equal to the price he gets for the product. Nothing would be left for profit. Of course, such a world would not have any need for entrepreneurs and no economic function for profits. As only those things are produced every day which were produced yesterday, the day before yesterday, the last year, and ten years ago, and as the same routine will go on forever, as no changes in the supply or demand either of consumers' or of producers' goods or in technical methods happen, as all prices, wages, and interest rates are stable, there is no room left for any entrepreneurial activity.

The economists who constructed and used this imaginary scheme were fully aware of its fictitiousness and its unreality. They did not fail to recognize that in such a hypothetical world, man would no longer be human, but a soulless vegetative being. He would not be in a position to make use of his most human faculty, reason; he would live like an ant in its hill. The economists were not so foolish as to hold up this hypothetical state of perfect equilibrium as a pattern for a better social order or to criticize existing conditions from the viewpoint of their deviation from this pattern.

The actual world is a world of perpetual change. Population figures, tastes, and wants, the supply of factors of production, technological knowledge, and many other things are in a ceaseless flux. In such a state of affairs, there is a need for a continual adjustment of production to the change in conditions. This is where the entrepreneur and profits come in.

Those eager to make profits are always looking for an opportunity. As soon as they discover that the relation of the prices of the factors of production to the anticipated prices of the products seems to offer such an opportunity, they step in. If

their appraisal of all the elements involved was correct, they make a profit. But immediately the tendency toward a disappearance of such profits begins to take effect. The booming branch of business, i.e., the branch in which profits are high, attracts other entrepreneurs. The booming branch tends to expand until competition makes profits disappear. Profits are a permanent phenomenon only because there are always changes in market conditions and in methods of production. The state of equilibrium can never be attained because nothing else is permanent in human condition but change. He who wants always to make profits must be always on the watch for new opportunities.

While profits do not turn up in the image of a static state, monopoly prices and monopoly gains are compatible with this image. An everlasting patent right fits very well with the other hypothetical assumptions of the static state and the equilibrium preserved in it. Neither is the existence of unused capacity of plants an element preventing the establishment of a static equilibrium. Of course, we must assume that the unused plants are only fit for the production of commodities for which there does not exist any demand and that their use as scrap material is out of the question. Otherwise, the equilibrium could only be reached when the unused plants or machinery have been completely absorbed either for the replacement of other plants and equipment used up or for a use as scrap material.

Thus, it becomes evident that profits and monopoly gains are two entirely different sources of revenue. The two must not be confused.

The fact that an enterprise does not use the full capacity of its equipment, although it would reduce average cost of production per unit by doing so, is, as has been pointed out above, not necessarily an outcome of a monopolistic policy. It does not render competition "imperfect." As long as there is a more profitable employment available for the capital required for the expansion of production, it is reasonable for the entrepreneur to abstain from such a further expansion. It is at the same time reasonable from the viewpoint of the consumer.

Let us assume that the constant costs of production of a plant with a capacity to produce 200 units is $100, and the variable cost per unit is $2. The plant uses only 50 percent of its capacity and produces 100 units at a total cost of $300, and consequently at an average cost per unit of $3. Production at full capacity would require a total cost of $500 and would reduce the average cost per unit to $2.50. If the additional capital required for this full capacity production can yield a higher return when used for another kind of production, it would be wasteful—both from the viewpoint of the entrepreneur and from that of the consumer as a totality—to use the plant's full capacity. This would withdraw capital and labor from other lines of production for the products of which the demand is more intense.

This reasoning applies, of course, only to the cases in which there is only one plant in the field concerned, or in which all plants operate with the same structure of the cost schedule. If there are several plants with different costs, those with the highest cost would have to go out of business, and the remaining, but for that with the marginal costs, could go on producing at full capacity.

Monopolistic restraint of trade always requires that the monopolist has the assurance that no competitor could frustrate his own restriction by an expansion of

his sales. With every case of monopoly prices, we must be in a position to answer the question: what prevents other people from counteracting the monopolist's restriction? The answer may be the law (e.g., in the case of a patent or an intergovernmental agreement), an agreement (e.g., in the case of a cartel), their geographical remoteness (e.g., in the case of bulky goods), their exclusive ownership of one of the factors of production required (e.g., in the case of natural resources), a sufficient difference in the height of production costs (e.g., in the case above on p. 4), or the time required for the finishing of the process of production (e.g., the case described above on page 5). This is what people have in mind when defining monopoly as a state in which one seller or a group of sellers acting as a unit have the power "to control" supply. This term "control" becomes inadequate for the description of monopoly if we were to interpret it in another way.

The issue becomes still more manifest if we consider the fact that most enterprises do not produce one commodity only, but a variety of different articles. A textile plant, for instance, does not turn out one or a few patterns, but a multitude of various patterns. From the viewpoint of the "perfect" competition fallacy, competition would be "perfect" only if the entrepreneur were to expand the manufacture of each pattern up to the point in which the increment cost of production equals the marginal price that would be obtained on the market. Only then should he embark upon the production of a second pattern.

In reality, the entrepreneur finds it more profitable to stop producing a certain pattern before this point is reached and embarks upon the production of a second, a third, and many other patterns. He acts in this way because he wants to maximize his profits. But it is precisely the attitudes of the consumers that make the production of various patterns more profitable than restriction to the production of one or a few patterns only. In not pushing the production of a certain pattern to the point at which profits would disappear, the manufacturer adjusts production to the wishes and wants of the consumers. It is the consumer who orders him not to use the "full capacity" of one design up to the limit at which the profit must disappear.

The same is true for every branch of industry. It would reduce production costs for every plant if it were to restrict the variety of products turned out. A tool factory would reduce its costs of production if it were to produce only one standard type of hammer. It is the buying public that forces it to produce various types and sizes of hammer and many other tools besides.

Standardization of products can go as far as the public is ready to buy the cheaper article rather than a more expensive article of another pattern. It was the buying public that forced the Ford plant to substitute cars with various paints for the uniform black painted standard type.

The doctrine of imperfect competition is fabulous not only on account of its misconstruction of the concept of static equilibrium. It is also mistaken in its assumption that the structure of the schedule of physical costs alone directs production or should direct it in a perfect world. From the viewpoint of this fallacy, it would be impossible to explain why there exists a variety of manufacturing plants turning out different products from the same raw materials.

The doctrine of "imperfect" competition was a desperate attempt of fanatical foes of free enterprise to refute the economists' demonstration that in a competitive market, i.e., in a market where there are no monopoly prices, a surplus of sales proceeds over production costs is always the result of the entrepreneur's success in providing the consumers with those commodities for which their demand is most intense. The champions of the doctrine of "imperfect" competition were deluded by their fanaticism and their zeal to disparage free enterprise. Their pro-socialist bias made them blind to the fundamental facts of economic activity and the characteristic features of any production under the division of labor.

The ideas that motivated their critique were these: modern economics had demonstrated that, under an unhampered market economy, the consumers, by their buying and their abstention from buying, direct the activities of the entrepreneurs. The market is a democracy of the consumers; the entrepreneur, eager to make as much profit as possible, is a mandatary of the consumers intent upon the most efficient satisfaction of their wants. Thus, one of the main slogans of the socialists, the famous demand for a substitution of "production for use for the production for profit" is exploded.

The socialists first attempted to refute this unassailable demonstration by pointing out that there is, in the evolution of unhampered capitalism, an inherent tendency toward the emergence of all-round monopoly. This trend toward monopoly was depicted as inexorable. It puts in the place of the democracy of the consumers, characteristic of the early stage of capitalism, long since passed forever, the arbitrariness of monopoly capitalism. Whatever may be said in favor of capitalism at its earlier stages does not apply to the conditions of monopoly capitalism. Monopoly capitalism is a system of ruthless exploitation of the masses for the sole benefit of big business.

But very soon the economists unmasked the fallacies of this doctrine. They proved that national monopolies are only possible in a world in which economic nationalism insulates the national economies from the world market through trade barriers, and in which patent rights are granted. International cartels are either the outcome of agreements of national cartels or the achievement of government interference. The trend toward monopoly is not inherent in the "natural" evolution of capitalism, but is the effect of institutions purposely aiming at the elimination of competition.

Now the socialists took recourse to a new ruse. There has never been, they asserted, such a thing as "perfect" competition. Practically every businessman is in a position to control output and therefore to restrict supply in a monopolistic way. Profits are always the fruit of monopolistic restraint of trade. Such is the doctrine of "imperfect" competition as developed by Mrs. Joan Robinson of Cambridge University. Mrs. Robinson is probably in her subconscious fully aware of the fallacies of her arguments. Otherwise she would not advocate the German and Russian methods for the suppression of all criticism. No independent universities, learned societies, and publishing houses should be allowed to exist. One can agree with the lady that her doctrine could not survive except under these conditions.[1]

[1]Mrs. Robinson wants, moreover, in the same way to prevent the existence of independent churches, theaters, and philharmonic societies.

The Individual Consumer under Monopoly Prices

Under competitive prices, the consumers are supreme in directing the use of the available resources. The entrepreneurs, the capitalists, and the farmers must aim at supplying the market with the commodities most urgently asked for by the consumers. They must try to turn out, as cheaply and as well as possible, those quantities of every commodity for which the consumers are ready to pay at least the cost of production. There prevails a tendency to bring the price of every commodity down to the point where the price is equal to the cost of production.

The substitution of monopoly prices for competitive prices results in a deviation of production from the lines entirely determined by the attitudes of the buying public. Along with the consumers, the monopolists too have a voice in the direction of production and consumption.

The reaction of the individual consumer to a monopoly price may be different:

1. In spite of the price rise, the individual does not restrict his consumption of the commodity concerned; he is therefore under the necessity to restrict his purchases of other commodities which he deems less indispensable. (If all individuals were to behave thus, the competitive price would have already risen to the height of the monopoly price.)

2. The consumer restricts his purchase of the monopolized commodity to such an extent that he does not spend for it more than he would have spent—for the purchase of a larger quantity—under the competitive price. (If all people were to act in this way, the seller would not get more under the monopoly price than he did under the competitive price; he would not derive any advantage from deviating from the competitive price.)

3. The consumer restricts his purchase of the monopolized commodity to such an extent that he spends less for it than he would have spent under the competitive price; he buys with the money thus saved goods which he would not have bought otherwise. (If all people were to act in this way, the seller would harm his interests by substituting a monopoly price for the competitive price. Only a benefactor who wants to wean his fellow-citizens from bad habits would in this case raise the price of the commodity concerned above the competitive level.)

4. The consumer spends more for the monopolized commodity than he would have spent under the competitive price and acquires only a smaller quantity of it.

However the individual reacts, his satisfaction appears to be impaired from the viewpoint of his own valuations. He is, from the viewpoint of his own valuations, under monopoly prices not so well served as under competitive prices.

Free Enterprise and Monopoly

Monopolistic restraint of trade restricts the individual's opportunity to enter those fields of economic activity in which he could succeed best and render the most useful services to his fellow-citizens. It thus curtails the chances of the rising generation. It prevents a businessman operating in other branches of business from adjusting his outfit in the best possible way to existing market conditions by expanding it into a monopolized field.

The idea of excluding competitors by the aid of government interference is very popular nowadays. It permeates the policies of influential labor unions. It is at the bottom of all plans to organize industry in compulsory bodies, whether they are labeled "self-government in industry" or corporativism, and whether they are promoted by governments calling themselves progressive or fascist. The purpose of all such endeavors is to return to the privileged inns and guilds and to the chartered companies which in the centuries preceding the evolution of modern industry hindered economic improvement and technological progress.

A characteristic outcome of this anti-competition spirit was the endeavors of various local interests to erect, by means of state legislation and measures of local administration, a substitute for inter-state trade barriers. It is one of the most beneficial provisions of the Constitution that it bars the way to all such "reforms." One needs only compare American conditions with those of Europe in order to appreciate what this absence of inter-state barriers means. The United States is the world's largest uniform market. Its people enjoy the advantages of big-scale production because there is free mobility of capital, men, commodities, and services within the whole country.

Free enterprise is the antithesis of all plans to protect by privilege a less efficient business against a more efficient. The only method of outstripping a competitor of which it approves is to produce and to sell better and cheaper products.

If American business wants to compete on foreign markets, it is under the necessity of adjusting its operations to the laws and usages of the countries concerned and to the economic conditions of these countries. It is therefore contrary to purpose to restrict the bargaining power of American export trade by imposing upon it restrictions to which its foreign competitors are not subject at all or not to the same extent.

The Economies of a Monopolistic Conduct of Affairs

By and large we must realize that the socialists are more sympathetic to monopoly than to competition. They disparage the competitive system unswervingly and aim at the establishment of an all-round government monopoly. The tears they weep over the vanishing of competition are crocodile tears. The only fault they find in monopoly is that it is private monopoly and not government monopoly.

One of the faults the socialists find with the competitive system is that in exploiting the natural deposits of ores, minerals, and oil, it does not care for the needs of future generations. Sooner or later, these deposits will be exhausted, and the coming generations will lack the most precious resources.

It is very difficult to enter into an examination of these arguments. We do not know what kind of natural resources men will need in the future. We are using today resources considered as useless and not utilized by our ancestors. Nobody, a hundred years ago, could have anticipated the role which oil and electricity are playing in our present economic system. Aluminum, today one of the basic metals, was sixty years ago merely a material for toys and other trifles. Every day brings us unheard of technological progress. If we were to restrict the utilization of some resources in order to leave them to later generations, we would not know whether we would not simply rob ourselves without rendering any service to them.

But however that may be, a man who thinks that we should be more economical in the exploitation of mines and oil fields cannot blame the monopolistic policies of the respective cartels. If he is consistent, he must, on the contrary, consider the restriction of output in the extractive industries as a beneficial measure.

Apart from the case of the extractive industries, the socialists blame the competitive system for its wastefulness. It is wasteful because the rivalry between competing firms necessitates advertising and other useless selling costs and prevents the full utilization of the advantages of big-scale production.

However, it is not true that a monopolistic combine can always save the costs of advertising. Some monopolies can do without advertising. The U.S. Post Office does not need to attract customers by advertising. As correspondence is a general habit among our contemporaries, the customers pour in even in the absence of any expensive propaganda. But it is different with other monopolized branches of production. Although selling at monopoly prices, they are not safeguarded against losing their patrons to other branches of industry.

The proof that the monopolistic position as such does not free an entrepreneur from the necessity of advertising is given by the fact that books under copyright, patented articles, and brands under trademark protection do advertise.

Nor is it more true that the monopolization of an industry brings about technical economies in offering better opportunities for the utilization of the technical advantages of large-scale production. Insofar as production on a bigger scale is more economical than that on a smaller scale, it is precisely this difference in production costs that under competition eliminates the plants that did not succeed in adopting the most efficient methods of production.

The survival of smaller plants and their ability to stand the competition of larger plants is due to the fact that there is always a point beyond which increases in the scale of output are not attended by further gains in efficiency, and may sometimes even be attended by increased costs per unit of output. As far as large-scale production in manufacturing is technically superior to small-scale production, smaller plants are doomed to disappear. It is a mistake to believe that monopolization either through cartelization or through a merger is necessary in order to secure to the public the advantages derived from big scale production.

On the contrary, it is a fact that the monopolization of an industry sometimes aims deliberately at an artificial preservation of plants and farms that would not be in a position to stand the competition of plants and farms operating at lower costs.

The most conspicuous example is provided by government interference with the conditions of agricultural production. Changes in demand and supply and the emergence of new competitors operating under more favorable physical conditions force again and again the farmers and planters producing with the highest costs to discontinue production. This would have been the case in the last fifteen years with Latin-American coffee plantations, with American cotton and wheat growing, and with rubber plantations. The protectionist policies of the importing countries, the development of new synthetic products (e.g., rayon), and the general over-expansion of production in the boom period and the establishment of new competition on more

fertile soil would have forced the submarginal producers to go out of business. Only those producers would have remained with whom the costs of production were lower than the market price of the product. However, the farmers and planters affected did not accept this solution. They succeeded in convincing their governments that the establishment of a monopoly would solve the problem in a more satisfactory way. While the results of competition would have been the elimination of those producing with highest costs, the governments made all producers submit to a proportional restriction of output. The establishment of the monopoly price was a means to preserve production artificially at costs which would have rendered production unprofitable under the competitive price. Production on lower-cost farms and plantations was restricted in order to make production at higher costs profitable. And, of course, the public had to foot the bill.

Similar conditions sometimes turn up in the processing industries.

Up to the eighteenth century, every handicraftsman whose routine was threatened by the competition of a more efficient rival had a claim to protection on the part of the authorities. Technological innovations, improvements in the methods of production, were deemed unfair. The preservation of the traditional business practices was considered one of the tasks of good government. The abolition of this anti-progressive policy, an achievement of the laissez-faire doctrines of British and French eighteenth-century economic philosophy, paved—late indeed—the way to the stupendous technological evolution of modern capitalism.

The colonists who founded the British settlements on the Atlantic Coast of America left behind them in the old country many bad usages and institutions. It never occurred to them to transplant the guilds and inns and their restrictive methods into their new communities. They did not believe in the expediency of a policy of putting obstacles in the way of the efficient and industrious and in fostering inefficiency, indolence, and backwardness. They did not assign to the authorities the task of perpetuating old-fashioned methods of doing things. Thus, they made America foremost in the field of technology. Today all non-Americans spontaneously associate the word "America" with the ideas of high efficiency and continual progress in industrial technique.

The victory of the laissez-faire idea in continental Europe was only temporary. Very soon the inveterate illusion that a country's well-being can be promoted by the preservation of plants unable to stand on their own the competition of more efficient plants triumphed again. One of the reasons why many governments of continental Europe encouraged the formation of cartels, and, if encouragement did not result in cartelization, directly forced the firms and corporations to combine, was precisely that they were anxious to secure the survival of the inefficient plants which would have been doomed on a competitive market. Under the monopoly price, brought about by cartelization, the inefficient plant can continue production. Cartelization was considered as a means to protect the producer against the superior efficiency of other plants.

American public opinion is entirely mistaken in believing that American big business has some reasons to sympathize with the European evolution toward cartelization, and that agreements concluded between American producers and

foreign cartels are proof of an identity of interests. It is a fact that the European cartels are mostly weapons of economic nationalism built with the deliberate intention of fighting American economic expansion.

In the chemical industries, Germany—thanks to the natural resources of her soil and to the achievements of her scientists—is equal or even superior to all foreign enterprises. But in almost all other branches of production, natural conditions are less favorable than in other countries. As Germany can neither feed nor clothe its population properly out of domestic resources, it must export manufactures in order to pay for the badly needed imports of foodstuffs and raw materials. The German governments—for more than sixty years—have aimed at the encouragement of export trade by cartelization. The cartels sell on the domestic market at monopoly prices. They sell abroad at lower prices. The prices they charge to foreign buyers in many cases do not cover the costs of production. But the losses thus incurred are financed out of the monopoly gains on the domestic market. The native consumers subsidize, as it were, the dumping on the foreign markets.

If Germany had not adopted such a policy, American business groups would not have considered it as expedient to enter with German cartels into agreements concerning the partition of foreign markets. Such agreements became advantageous for America only in the face of German dumping as a means of parrying the blows of German economic nationalism.

The illusiveness of the belief that cartelization furthers technological improvement and the concentration of production in the places offering the most propitious opportunities can easily be proved by referring to Germany, the country most advanced in matters of cartelization. It is, for instance, one of the main objectives of the German steel combine to make the use of low-grade iron ore deposits profitable.

The operation of the market mechanism on a competitive market tends to eliminate technological backwardness, as the main tool of competition is either underselling or offering a better commodity for the same price. It is a mistake to believe that the incentive for technical improvement is stronger with a monopolistic organization than with enterprises competing on a free market. Moreover, it is a fact that monopolistic organizations were fostered by the governments with the manifest intention of preserving plants and farms producing at costs which would have prevented their survival on a competitive market.

IS THERE, IN THE "NATURAL" EVOLUTION OF FREE ENTERPRISE, A TENDENCY TOWARD A PROGRESSIVE SUBSTITUTION OF MONOPOLY PRICES FOR COMPETITIVE PRICES?

The Socialist Dogma

The socialist dogma, widely accepted today by people who would be indignant if somebody were to call them socialists, contends that the trend toward monopoly is inevitable in the "natural" evolution of capitalism. Our age is called the "age of monopoly capitalism," and all evils—economic depression, unemployment, and war—are charged to the sinister machinations of "monopoly capital." All governments

emphatically declare that the foremost duty of good government is to protect the people against exploitation and depredation on the part of monopolies. Government all-round control of business, i.e., socialism, is advocated as the most efficacious means to free the world from the curse of monopoly.

If we want to inquire whether or how far this dogma is justified, we have first of all to emphasize that what people have in mind in indicting monopoly is not monopoly as such, but the substitution of monopoly prices for competitive prices. We do not have to enter into over-sophisticated hairsplitting concerning the "monopolistic" position of a man selling a commodity different from those offered by other sellers. What counts alone is whether or not a seller is in a position to increase his net revenue by restricting the quantity sold. The problem of monopoly is essentially a problem of monopoly prices, i.e., of monopolistic restraint of trade. Everybody understands it in this way. The question, therefore, is not: is there a "natural" tendency toward the emergence of monopoly? But: is there a "natural" tendency toward a progressive substitution of monopoly prices for competitive prices?

There is no doubt that the last decades have witnessed a progressing tendency toward the replacement of competitive prices by monopoly prices. But it is an undisputed fact that the vast extension of the sphere of monopoly prices was the result of government policies deliberately aiming at the establishment of monopolistic restraint of trade. The governments have either directly forced business to monopolistic pricing methods or have provided the conditions required for such policies, confident that the enterprises concerned would profit from the opportunity offered.

The mere fact that governments have acted in this way is the clearest evidence that with regard to the branches of production affected by this government policy such a "natural" tendency toward monopolistic restraint does *not* prevail. If such a tendency were to exist, it would be quite superfluous to adopt measures of this kind. The fact that a law makes it possible for an inventor to apply for a patent and thus to acquire a monopolistic privilege does not indicate that an inventor is—in the absence of patent legislation—in a position to embark upon a monopoly price policy with regard to his invention. On the contrary, it is the proof of the fact that but for the government's interference, such a policy would be out of the question.

The problem we have to deal with is: is it true or not that there prevails in the "natural" evolution of modern business, i.e., in the evolution not hampered by government interference deliberately aiming at the establishment of monopolistic restraint, a tendency toward the progressive substitution of monopoly prices for competitive prices? It is obvious that this question is answered in the negative for all those fields of business activity in which there is government interference aiming either at compulsory establishment of monopoly prices or at the establishment of the institutional conditions required for the building of monopolistic price policies.

It is not the aim of our investigation to question the expediency of those governmental policies deliberately encouraging the emergence of monopoly prices. This is a separate problem. What we have in mind is to unmask the utterly mendacious and dishonest attitude of those demagogues who describe the trend toward monopoly prices as the outcome of an evolution inherent in the conditions of an economy of

free enterprise. It is, furthermore, necessary to expose the double-dealing of governments which proclaim anti-monopoly policies as their foremost aim and at the same time eagerly work for the establishment of monopoly prices in many lines of business.

Government-Made Monopolies

The main source of monopolization is the deliberate creation of monopolies on the part of governments. There are two classes of such monopolies: those which are established with the manifest intention of substituting unlimited monopoly prices for competitive prices, and those which aim at the restriction of competition without the intention of bringing about unlimited monopoly prices. Let us first consider the second class.

Monopolies with Limited Price Rises

In many countries, the governments have restricted access to some branches of production and distribution in order to secure to special groups a higher revenue than what they could earn on a free market and under competitive prices.

This policy must not be confused with the laws requiring the fulfillment of special conditions on the part of those eager to exercise a certain profession or business activity. In this country, for instance, the exercise of the medical profession is free only to men and women who have passed certain examinations. However, everybody who has passed these examinations is free to practice medicine. Neither the authorities nor the already practicing doctors have the right to prevent a newcomer who has complied with all requirements from entering the field. The aim of the laws concerned is not to shelter the old doctors against the competition of newcomers, and to restrict competition, but to protect the public against quacks.

It is different with the laws which in many European countries restrict access to the business of pharmacists, chimney-sweepers, taxi-cab enterprises, and so on. These laws order the authorities to grant new licenses only if the interests of the already practicing licensees are not too much prejudiced. It is the manifest and undisguised intention of the laws to secure a certain minimum income to the licensees.

On the other hand, these laws are not intended to give to the licensees the power to charge ad libitum monopoly prices. They, therefore, order the authorities to fix price ceilings for the commodities sold and the services rendered. These price ceilings, as a rule, fix the maximum prices at rates above the height which would have been established on a free market. They are monopoly prices. But the seller is prevented from choosing that monopoly price which would bring him the highest monopoly gain.

Monopolies with Unlimited Monopoly Prices

Patents: The laws of all civilized nations grant patents to new inventions. It is the intention of these laws to encourage the inventive spirit by creating temporary monopolies.

The question whether the patent system really contributes to progress in technological methods is controversial. It is true that most of the attacks directed against

patent protection have come from people biased by fanatical anti-capitalism. But there are also other critics of the system whose arguments cannot be easily disregarded.

However, the experience of the last hundred years proves that the patent system has at least not obstructed the utilization of new inventions. It has encouraged the inventive spirit by providing ingenious men with the incentive to spend the best years of their lives in the task of inventing, and has given business the incentive to spend huge sums for research. Public opinion does not find any fault with an institution which makes it possible for an inventor to get a reward for the benefits which his fellow-citizens derive from his contribution to mankind's progress. It would consider the abolition of the patent laws as a grave injustice.

Copyright: Hardly anyone attacks the copyright laws. Thanks to the monopolistic position that these laws secure to authors, it is possible for successful writers of fiction, and likewise of non-fiction, books and articles destined for the general reader to make a living from their writing. The author no longer depends on the munificence of some Maecenas as in older days. He depends on the buying public.

Trademarks: The way in which many authors have discussed the question of whether trademarks are monopolistic clearly exposes the shallowness of substituting the alternative *monopoly or competition* for the alternative *monopoly price or competitive price*.

There cannot be any doubt about the monopolistic nature of a trademark. Under the law, the use of a certain name, sign, or mark to distinguish one's own products is a monopoly right. But this fact alone does not mean anything at all for the formation of the prices of the article marked with this name. A name in itself is an arbitrary combination of letters. An indefinite number of other such combinations can be made and registered as trademarks. Each person is free to choose as many trademarks as he wants.

The commercial meaning of trademarks is that they enable a businessman to build up goodwill. By virtue of a trademark or brand name, the producer can enter into direct business relations with the buying public. The buyer knows whose product he is buying, and is in a position to distinguish in his purchase between products he likes more and those he likes less. He can profit from the experience which he had in the past in trying various products. He becomes a permanent patron of those manufacturers whose products did satisfy him. He can recommend the product he likes to friends who have not yet found out what brand suits them best. Thus, a manufacturer—by serving the public well—is in a position to acquire a prestige in the same way in which every shopkeeper, hotel owner, or doctor acquires it. Trademarks thus play an important role in the conduct of present-day business. If no legal protection were accorded to the use of trademarks, the buying public would lack any orientation.

It is one of the functions of trademarks to enable the customer to distinguish the various brands with regard to their chemical and technological qualities and to choose that which best complies with his wants and tastes. But this is not the only function of trademarks.

What the use of a trademark gives to the manufacturer is the opportunity to deserve goodwill. Goodwill is the renown a man or a firm acquires on account of past achievements. It implies the expectation that the bearer of the goodwill, in the future, will live up to his past standards. Goodwill is not a phenomenon only in business relations. It is a feature present in all human and social relations. It determines a person's choice of his wife and his friends and his voting for a candidate in elections.

It can sometimes happen that the goodwill of a trademark gives to a manufacturer the opportunity to substitute monopoly prices for competitive prices. However, as a rule, the advantage derived from the use of a well-known trademark is not so great as to make a purposeful restriction of the quantity offered for sale profitable.

But even if a branded article is sold at monopoly prices, nobody suffers any detriment. If a dental cream marked as Cleopatra can be obtained only at monopoly prices, no manufacturer is prevented from selling the same cream under another name. Nobody can say that his interests are harmed by the monopolist's restriction of output.

The mere fact that two products, which are the same with regard to their chemical and physical properties, can be sold at different prices on account of the difference in the appraisal of the brand name on the part of the public is not in itself proof of a monopolistic restriction of output. It is only the effect of the goodwill.

The marketing of a commodity requires a certain degree of publicity. The potential buyers must know that such a commodity exists and who the potential sellers are. To be publicly known to some extent is thus an indispensable requirement of every commodity to be sold.

In the wholesale trade of staple commodities, the exchanges and similar institutions provide buyers and sellers with the opportunity to meet one another for the transaction of business. In the producers' goods industries, agents, commission-merchants, middle-men, and go-betweens bring both parties together. In the consumer-goods industries, publicity must be acquired through advertising, and, as the average man has a weak memory, advertising must be continued. An article which the buying public does not know or has forgotten will not be bought. Its manufacturer will either not get the opportunity to deserve goodwill or will lose it very soon.

The degree of publicity is an important element in the determination of the quantity that can be sold. The better known a brand is, the more easily can it be marketed, provided that it suits the tastes and wants of the consumers. But this is not tantamount to a monopolistic position of the seller enabling him to fare better by restricting sales instead of increasing them.

National Cartels: With the exception of some bulky goods in the marketing of which transportation costs play an important role, the establishment of national cartels is only possible if an import duty insulates the world market. A national combine would not be in a position to establish monopoly prices on the domestic market if foreign competitors were free to sell at a lower price.

Now, tariffs are not an outcome of the "natural" evolution of free enterprise. They are always the result of a deliberate policy. As far as cartels and monopoly prices are conditioned by the existence of tariffs, they are not the result of a spontaneous evolution, but of government interference with business.

Prior to the intervention of various governments, both state and municipal, there were even in the field of public utilities competing gas and electric companies. Competitive development was the rule rather than the exception. It has been the policy of exclusive franchise that has locally prevented the competition of coterminous utilities.

It was the Federal Communications Commission that recommended the combination of Western Union and Postal Telegraph and the establishment of a similar monopoly in the field of international communications.

International Agreements of National Cartels: If there exist national cartels in a good many of the great industrial nations, the free world market shrinks to a comparatively unimportant part of the whole world market. The much greater part of the total consumption of the commodity concerned is sold and bought at monopoly prices. The consumption of the rest of the world—most of them backward countries with a low standard of living—is comparatively insignificant. Then it is not too difficult for the national cartels to come to an amicable arrangement concerning the open market. An international cartel becomes practicable.

Compulsory International Cartels: The most conspicuous instance of government-made cartels are those international treaties which the International Labor Office euphemistically calls "Inter-Governmental Commodity Control Agreements."

The preamble of the rubber agreement, signed in London, May 7, 1934, by Great Britain, France, India, the Netherlands, and Siam, reads as follows:

> Considering that it is necessary and advisable that steps should be taken to regulate the production and export of rubber in and from producing countries with the object of reducing existing world stocks to a normal figure and adjusting in an orderly manner supply and demand and maintaining a fair and equitable price level which will be reasonably remunerative to efficient producers, and being desirous of concluding an agreement for this purpose.

What an amazing circumlocution for the simple fact that the agreement aimed at a restriction of output in order to substitute a monopoly price for the competitive price.

Similar intergovernmental agreements were entered into with regard to many other commodities, e.g., sugar, tea, beef, coffee, timber, tin. International commodity agreements with varying degrees of governmental sanction or participation concern, moreover, aluminum, lead, nickel, zinc, mercury, nitrates, petroleum, potash, sulphur, quinine, and raw silk. It is worthwhile mentioning that Soviet Russia does not refuse to cooperate in such agreements with the "capitalist" nations.

Monopolization Without Direct or Indirect Government Support

It is probable that even in the absence of any government support, incentive, or compulsion, some monopolies could develop and substitute monopoly prices for competitive prices. This could happen under special conditions:

1. With regard to public utilities;
2. With regard to some bulky goods;

3. With regard to those mineral resources which are concentrated in one place or in a small number of places.

The two first named cases could bring about local monopolies. The third case could result in a world monopoly.

The problem of public utility regulation is essentially a problem of administration. As the public utilities are under the necessity of coming to an agreement with the federal government, the states, or the municipalities, with regard to the use of publicly owned roads, streets, and water supply, there is ample opportunity for arrangements safeguarding the interests of the consumers.

Local monopolies of bricks and coal are unlikely to play an important role in this age of steel and cement, prefabricated houses, oil, and electricity.

The economist would be at a loss for an answer if somebody were to ask him for another instance of a world monopoly fostered without any aid, compulsion, or participation on the part of governments than that of the diamond monopoly.

It is not incorrect, although an overstatement, to call our age the age of monopoly. But that it is so is the outcome of government policies, not of a tendency inherent in the free enterprise system.

CONCLUSION

The substitution of a monopoly price for a competitive price is tantamount to a serious restriction of the working of the most characteristic principle of the free enterprise system, i.e., of the sovereignty of the consumers. It restricts output although such a restriction does not suit the wishes of the public. It secures to the monopolist an extra gain which is not derived from the best possible satisfaction of the needs of the consumers. With regard to these facts, we may say that monopoly prices are abnormal in the framework of a market society.

So far public opinion is right in criticizing monopoly prices. However, public opinion is entirely mistaken in assuming that there prevails in a market economy not hampered by government interference with business a natural tendency toward a progressive substitution of monopoly prices for competitive prices. There is no such tendency. Most instances of monopoly prices are either directly or indirectly government-made. But for the policies of various governments there would exist local monopolies, but only rare cases of national and still less of international monopolies.

If a government aims at establishing the conditions required for the appearance of a monopoly price, it is driven by the opinion that such a monopoly price is, under the given situation, the most appropriate solution of an economic problem. This opinion may be questioned. But it is nonsensical to attack the monopoly as such and not the policy which results in the creation of a monopoly.

The case is obvious with patent and copyright legislation. It is the clear intention of these laws to grant to inventors and authors the opportunity to get monopoly prices. Whether this is a good or bad policy is a question of its own. But it is contradictory to criticize the monopoly price and not the policy which made its appearance possible.

The aim of a protectionist tariff is to improve the nation's balance of trade, and to maintain a high domestic standard of wage rates. The expediency of protection of import duties insulates the domestic market.

The attitude of the governments and of public opinion with regard to monopoly prices is utterly inconsistent. The governments are eager to build international cartels and provide the conditions required for the creation of national monopolies. Public opinion approves these policies. But on the other hand, the same governments and the same public opinion passionately indict the Moloch of monopoly.

This country has promulgated laws which are intended to prevent the formation of monopolies and trusts. The authorities are eager to enforce these laws. But on the other hand, the U.S. is a party in international agreements the ostensible purpose of which is monopolistic restraint of output and trade in essential raw materials and food stuffs. Moreover, the agricultural policies of the New Deal were unambiguously directed at the same goal.

The outstanding fact which we must keep in mind is: there is no tendency toward a general substitution of monopoly prices and monopolistic restraint of trade for competitive prices.