

A Critique of Neoclassical and Austrian Monopoly Theory

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One of the most controversial areas in Austrian economics, and one where even long-established Austrian theorists differ sharply, is monopoly theory. Indeed, as we shall see below, the differences are not merely semantic, nor are they confined to detail or some minor theoretical implication. Rather, there are major and fundamental disagreements between some of the leading Austrians, and these disagreements are created by wholly different theories concerning the *definition* of monopoly, the *origins* of monopoly, and the supposed *effects* of monopoly on consumer sovereignty and efficient resource allocation.

NEOCLASSICAL MONOPOLY THEORY

By way of contrast, and in order to place the Austrian theories of monopoly in perspective, it is perhaps necessary to review and criticize the traditional (neoclassical) theory of monopoly.¹ A monopolist in neoclassical analysis is a firm that faces the entire demand for the product under consideration. In order to maximize its profits, it produces an output where the marginal revenue associated with the last unit sold is just equal to the marginal costs associated with producing and selling that final unit. But since the demand function facing the monopolist is necessarily sloped

¹ For a review of this position see, for instance, Edwin Mansfield, *Microeconomics*, Second Edition (Norton, 1975), Chapters 9 & 10.

downward (perhaps even steeply downward), the price charged for the output is *greater* than both marginal revenue and marginal cost.

This situation, it is argued, compares "unfavorably" with price and output (and cost) under competitive conditions. Under competitive conditions, since price and marginal revenue are equal, price is always identical with marginal cost when profits are maximized. Further, under competitive equilibrium conditions, price is always driven down to the minimum point of the average cost function, so that production tends to take place at its most "efficient" point. Therefore, monopoly prices are higher than competitive prices, outputs are less, and average costs greater than under comparable competitive (cost) conditions.

But, importantly, how is a firm able to *obtain* a monopoly position in the market and, thus, "misallocate" economic resources? In the first place the monopoly could simply be due to governmental prohibition of competitive entry, and there is certainly a recognition of this source of monopoly in the neoclassical literature. However, more recently it has been popular to stress certain *non-legal* "barriers to entry" that, allegedly, preserve monopoly and resource misallocation.² These barriers would include *any* difficulty or impediment that a new firm might have to overcome in order to compete successfully with an existing firm (monopolist). Thus, scale economies enjoyed by an existing firm, or commercially successful product differentiation employed by such a firm, becomes, in the new jargon, a barrier to entry that limits competition and reduces society's "welfare."

CONTEMPORARY MONOPOLY THEORY: A CRITIQUE

There are two avenues of criticism that one might take with respect to neoclassical monopoly theory. In the first place, one might criticize the purely competitive model which is employed as a benchmark and as a basis of comparison with monopolistic situations. And secondly, one might criticize the whole concept of non-legal barriers to entry, arguing, instead, that it is simply *consumer preference* that "limits competition" and that, consequently no misallocation of resources occurs.

Most economists would agree that pure competition is not actually possible. Some would agree, perhaps reluctantly, that it might not even be desirable or optimal if it *could* exist. (If they agree to this, of course, then they must also agree that moving toward pure competition is not necessarily desirable, either.) But few economists have noticed or emphasized the *fundamental* flaw of the purely competitive model, namely, that it is not a description of competition at all.³ Pure competition is a static, equilibrium condition whose very assumptions are such that competitive process is ruled out by definition. Or to put the matter more charitably, while pure competition may describe the final outcome of a particular competitive situation, the ultimate end result, it does not describe the competitive process that produced that particular outcome. The purely competitive theory is *not* a theory of competition as such.

² Willard F. Mueller, *A Primer on Monopoly and Competition* (Random House, 1970), Chapter 2.

³ Israel M. Kirzner, *Competition and Entrepreneurship* (University of Chicago Press, 1973).

The neoclassical habit of confusing competitive process with a final, static equilibrium condition makes for gross errors in economic analysis. For instance, product differentiation, advertising, price competition (including price discrimination), and innovation are rather routinely condemned as "monopolistic" and, thus, as resource *misallocating* and socially undesirable. This condemnation follows "logically" since not one of these activities is possible under purely competitive conditions. Hence everything that is truly competitive in the real world, truly rivalrous, gets labeled as "monopolistic" and resource misallocating in the Alice-in-Wonderland, purely competitive world. The analytical conclusions one is forced to come to, employing the purely competitive perspective, are not just wrong, not just unrealistic, but the very *opposite* of the truth. Far from being able to "predict," or, tell us anything meaningful concerning competitive behavior, pure competition can only describe what things would be like if the world contained zombie-like consumers with homogeneous tastes, atomistically structured firms identical in every important respect, with no locational advantages, no advertising, no entrepreneurship, and no rivalry whatever. Surely this is the major flaw and absurdity inherent in the purely competitive perspective.⁴

BARRIERS TO ENTRY: A CRITIQUE

Discussions about the non-legal barriers to entry suffer from the same difficulties. The two most popular and important "barriers to entry" are *product differentiation* and *scale economies*. Product differentiation limits competition since it makes competitive entry more costly. To use a favorite neoclassical example, the fact that the major automobile companies change styles every year increases the costs of competing in this industry. Would-be competitors must be willing and able to undergo the same or similar procedures, else they simply cannot compete. Even worse, once competition is "limited," the auto companies routinely pass along the higher costs in the form of higher prices, which contribute, it is alleged, to a real reduction in consumer welfare. On the other hand—indeed, on the opposite hand—scale economies also limit competition. The fact that certain firms realize lower costs per unit because of large volumes gives these firms the "power" to exclude smaller firms, or smaller potential entrants, from the market. Ergo, we are supposed to regret the reduced competition and consequent resource misallocation since inefficient firms cannot compete with efficient ones.

Actually, of course, the neoclassical theorists have gotten the matter completely and precisely *backward*. It is because, and only because, consumers find resources satisfactorily allocated that would-be competitors find entry difficult or impossible. Product differentiation, especially differentiation that does raise prices, can only act as a barrier to entry if consumers prefer that differentiation, and pay the presumably higher prices associated with, say, new annual auto styles. If consumers do not prefer such differentiation and, instead, reward the firms that change styles *less* often, or not at all, then product differentiation could hardly act as a barrier to competitive entry. Indeed, in the case just postulated, product differentiation would be an open invitation to entry and to competition.

⁴ D. T. Armentano, *The Myths of Antitrust: Economic Theory and Legal Cases* (Arlington House, 1972), Chapter 2.

To condemn commercially successful product differentiation as a misallocation of scarce resources, therefore, is to condemn the very "resource allocations" that consumers apparently prefer. It is the neoclassical economist's allegedly "optimal" allocation of resources *under purely competitive conditions* that product differentiation upsets, and not any allocation that can be associated with free consumer choice.

The same sort of argument can be made—and even more obviously—with respect to scale economies. Consumers do not regret the economies nor the consequent reduction in competition. Consumers could "increase competition" any time they choose to by indicating their willingness to pay higher prices to cover the higher costs of the smaller firms. That they do not usually do this indicates the resources are correctly allocated so far as they are concerned. Again, it is the economist's vision of the purely competitive wonderland that is upset by the large, efficient firm, and not allocative efficiency from a *consumer* perspective.

The final absurdity in this area is to observe where such incorrect theories of competition are likely to lead. If product differentiation limits competition, i.e., limits the number of competitors, then more competition can be obtained by limiting product differentiation—by law. If efficient techniques of production or scale economies limit competition, i.e., the number of competitors, then more competition can be obtained by raising either costs or prices for the efficient companies—by law. Thus, to take the barriers-to-entry theory seriously is to end up proposing as rational public policy—in the name of consumer welfare—the very procedures that consumers would likely find most harmful. The only thing sadder than all of this is that such ideas have actually been taken seriously in some antitrust circles and by the courts, and we have had some real world legal decisions that reflect such theoretical nonsense.⁵

As should be quite clear from the above review and critique, there is much dissatisfaction with the traditional notions of monopoly and competition, and with the simplistic antitrust policies (anti-merger policy, for instance) founded on such assumptions. But if the neoclassical approach to monopoly and competition is defective, what is the correct approach in this area? Indeed, *is* there a logical and rational theory of monopoly and, accordingly, an appropriate public policy to complement that theoretical approach? In the sections below we will turn to a critical examination of Austrian monopoly theory in an attempt to answer these questions. The views of von Mises, Kirzner, and Rothbard will be taken as representative of various Austrian positions concerning monopoly.

MISES' MONOPOLY THEORY

Monopoly exists for Ludwig von Mises when "...the whole supply of the commodity is controlled by a single seller or a group of sellers acting in concert."⁶ This condition puts the monopolist (or cartel) in the position of being able to restrict supply in order to raise market price without having to "fear that his plans will be frustrated by interference on the part of the other

⁵ *Ibid.*, pp. 212-15, 246, 267-68.

⁶ Ludwig von Mises, *Human Action* (Yale University Press, 1963), p. 358.

sellers of the same commodity."⁷ Mises holds, however, that monopoly *prices* do not result unless the restriction in supply produces prices that actually increase the monopolist's "total net proceeds." Only if the demand for the product is inelastic in the price range under discussion could "monopoly prices emerge as differentiated from competitive prices." Hence, it is not "monopoly" as such that is catallactically relevant for Mises, but only the "configuration" of the demand function and the emergence of monopoly prices.⁸

Importantly if such monopoly prices do exist, then they are an "infringement of the supremacy of the consumers and the democracy of the market."⁹ Mises even goes further:

Monopoly prices are consequential only because they are the outcome of a conduct of business defying the supremacy of the consumers and substituting the private interests of the monopolist for those of the public. They are the only instance in the operation of a market economy in which the distinction between production for profit and production for use could to some extent be made...¹⁰

And again:

The characteristic feature of monopoly prices is the monopolist's defiance of the wishes of the consumers.¹¹

Mises also argues that although most monopolies and monopoly prices are made possible by government intervention in the free market (tariffs, licenses, etc.), there are certain instances in which monopoly (and monopoly prices) arise in the unhampered market. He specifically mentions natural resource monopoly,¹² geographic monopoly,¹³ limited-space monopoly,¹⁴ and monopoly that might arise because consumers place a "special confidence...on the individual or firm concerned on account of previous experience,"¹⁵ as with certain trademarked drugs.

KJRZNER'S MONOPOLY THEORY

Professor Kirzner's theory of monopoly can be derived logically from his well-articulated theory of the competitive process.¹⁶ Kirzner views the market process as one in which market sellers are continually attempting to inch ahead of rivals by offering more attractive opportunities to potential buyers. And he views this process as *inherently* competitive since the key ingredient

⁷ *Ibid.*

⁸ *Ibid.*, pp. 358—60

⁹ *Ibid.*, p. 358.

¹⁰ *Ibid.*, p. 371.

¹¹ *Ibid.*, p. 373

¹² *Ibid.*, p. 371.

¹³ *Ibid.*, p. 373.

¹⁴ *Ibid.*, p. 375.

¹⁵ *Ibid.*, p. 364

¹⁶ Kirzner, *op. cit.*, Chapter 1.

that makes the process function—entrepreneurship—can *never* be monopolized. For Kirzner, pure entrepreneurship requires no resources whatsoever; hence the freedom to enter the market is absolute since no obstacles to entry can ever exist in a free market.

However, the exercise of entrepreneurship is quite another matter. Here the exclusive ownership or control of "*all* the current endowment of a certain resource" is defined by Kirzner to be monopoly, can indeed block entry into the production of some specific good, and can hamper competition and "impede the course of the market process." A monopoly producer for Kirzner is one whose "exclusive input blocks competitive entry into the production of his products."¹⁷ To employ Kirzner's example, without access to oranges, "production of orange juice is blocked."¹⁸ Kirzner notes that monopoly should *not* refer to a producer who—in the absence of resource monopoly—is the single supplier of some product in the market. That firm, he reasons, is still fully subject to the market process since entry into competitive production is always possible. On the other hand, when "needed resources" are restricted because of monopoly ownership or control of a certain resource, the very *possibility* of competition—and the benefits to consumers that are the consequences of competition—are eliminated.¹⁹ Here, according to Kirzner, the monopolist is completely "immune from the competition of other entrepreneurs who might, in other circumstances, enter his field of activity."²⁰

Kirzner is quick to note, however, that the monopolist is not immune from the competitive process itself. Although entry into some specific activity is by definition blockaded, entry into *similar* activities is not. Monopoly control over a resource simply diverts the competitive, entrepreneurial process into other similar activities, employing other resources which create a "turbulence" that surrounds and impinges upon the monopolist's, original activity.

Importantly, Kirzner hints that the equilibrium tendency of a market containing resource monopoly is to produce a *higher* than "competitive-equilibrium price" for the resources and also a higher "surplus" for the product produced with that resource. This surplus can be accomplished by withdrawing some of the stock from the market and "forcing" up the market price.²¹ Thus, consumers *might* be harmed by such activity since scarce monopolized resources are not being employed to the "fullest extent compatible with the pattern of consumer tastes in the market."²²

ROTHBARD'S MONOPOLY THEORY

Professor Rothbard's analysis of monopoly, monopoly price, and the welfare implications of such economic conditions differs radically from that of both Mises and Kirzner. Indeed, in his discussion of monopoly, Rothbard is sharply critical not only of the neoclassical monopoly

¹⁷ *Ibid.*, p. 21.

¹⁸ *Ibid.*, p. 103.

¹⁹ *Ibid.*

²⁰ *Ibid.*, p. 105.

²¹ *Ibid.*, p. 110.

²² *Ibid.*, p. 111

theories, but also implicitly critical (and occasionally explicitly critical) of views held by his fellow Austrian theorists as well.²³

As far as Rothbard is concerned, there are three possible definitions of monopoly: one, the single seller of any given good; two, a grant of special privilege by the state, reserving a certain area of production to one particular individual or group; and three, "a person who has achieved a monopoly price."²⁴

Although Rothbard admits that the first definition (single seller) is a coherent and even a "legitimate" one, he rejects it as *impractical* because it is too broad and all-inclusive. The impractical nature of this definition can be illustrated, Rothbard argues, by noting that any difference (differentiation) in any two goods or resources and, more importantly, any consumer-perceived difference in any two commodities or resources will make them unique (specific) goods and thus, by definition, "monopoly." Hence, "the single seller of any given good" could always reduce to the notion that everyone is a monopolist since each person in a market system is presumed to have exclusive ownership of *his* own (unique) property. But a definition that makes everything monopoly and everyone a monopolist is barren, "confusing," and "absurd" according to Rothbard.²⁵

Rothbard clearly prefers the second definition of monopoly—i.e., a grant of privilege from the state restricting competitive production or sale. This is a monopoly since entry into the privileged activity is prohibited by the state; logically, no such monopoly could ever exist in a free market. This definition will be adopted as the "proper" one should the final alternative definition prove nonsensical or illegitimate.²⁶

Rothbard's criticism of the theory of "monopoly price" (as well as his criticism of the theory of "competitive price") is certainly a controversial contribution to the literature on monopoly. For here he argues that in a free market there is simply no way of conceptually distinguishing "monopoly price" from a free-market competitive price.

On the free market there is no way of distinguishing a "monopoly price" or a "subcompetitive price" or of establishing any changes as movements from one to the other. No criteria can be found for making such distinctions. The concept of monopoly price as distinguished from competitive price is therefore untenable. We can speak only of the free market price.²⁷

It has been common, of course, to speak of monopoly price as that price accomplished when output is restricted under conditions of inelastic demand, thus increasing the net income of the

²³ Murray N. Rothbard, *Man, Economy, and State*, Volume II (D. Van Nostrand Co., Inc., 1962), pp. 561-66. See also *Journal of Economic Literature*, September-October, 1974, pp. 902-3.

²⁴ Rothbard, *op. cit.*, pp. 590-93.

²⁵ *Ibid.*, p. 591.

²⁶ *Ibid.*, p. 593.

²⁷ *Ibid.*, p. 614.

supplier. Even Mises, it will be recalled, employed the term in this manner and drew some fairly dismal welfare implications from the "restriction."

Rothbard argues, however, that there is no objective way to determine that such a price is a monopoly price or that such a "restriction" is antisocial. All we can know, according to Rothbard, is that *all* firms attempt to produce a stock of goods that maximizes their net income given their *estimation* of demand. They attempt to price (other things being equal) such that the range of demand above the asking price is elastic. If they discover that they can increase their monetary income by producing less—or even destroying existing stock—in the next selling period, then they do so.

Rothbard maintains that to speak of the initial price as the "competitive" price, and the second-period price as the "monopoly" price makes no objective sense. How, he asks, is it to be objectively determined that the first price is really the "competitive" price? Could it, in fact have been a "subcompetitive" price? Indeed, the entire discussion is absurd for Rothbard since there are no *independent* criteria that would allow either determination. All that can be known for sure, he argues, is that the prices both before and after the supply change are free-market prices. Rothbard also argues that "monopoly" prices cannot be inferred by comparing such prices to prices charged for *similar* factors. So long as the factors are not perfectly identical in the eyes of buyers, the differences in price (or profits) are simply free-market determinations of value for different goods. And any talk of monopoly price or monopoly "gain" when two *different* factors or goods are being compared is analytically incorrect.²⁸

Finally, the welfare implications concerning alleged monopoly prices would not follow even if such prices could exist. Since the inelasticity of demand for Rothbard is "purely the result of voluntary demands" of the consumers, and since the exchange (at the higher prices) *is* completely "voluntary" anyway, there is no way to conclude that consumers or their "welfare" have been injured.²⁹ Thus, for Rothbard there is no social "problem" associated with monopoly in a free market. Monopoly prices cannot be defined logically, let alone established in a free market.

CRITICAL REVIEW OF AUSTRIAN MONOPOLY THEORY

The views of Kirzner and Mises that monopoly consists of exclusive control over the whole supply of some specific resource create a number of familiar difficulties. In the first place, there would appear to be no objective way to define *beforehand* some "homogeneous" stock of resources that might be monopolized. All individually owned stocks of a resource could be differentiated at least with respect to location; in addition, the private-property system itself necessarily imparts a "differentiation" to all privately owned stocks. Further, even identical units of some given stock might be regarded differently by potential users, and there would be no way to determine this beforehand. Hence, this view of monopoly could reduce logically to the notion that each and every unit of everyone's property stock is owned "monopolistically."

²⁸ *Ibid.*, pp. 608-9

²⁹ *Ibid.*, p. 564.

Rothbard, it will be recalled, was critical of this definition of monopoly because its all-inclusiveness made it "impractical," confusing, and, ultimately, "absurd." But we can be critical of it on different grounds, employing Professor Kirzner's own (correct) view of the competitive market process. It will be recalled that Kirzner had argued that the key to competition was freedom of entry and that entry was impossible if potential entrepreneurs could not gain access to monopolized resources.³⁰ Yet, as has been noted above, if *all* individual stocks of resources are, in fact, *monopolized*, it would seem to follow that Kirzner's definition of monopoly would completely negate his own views on competition and market process. Indeed, it is difficult to understand how any competition or market process would even be possible with this definitional approach. How could *any* competition occur if *all* resources are monopolized?

Even if it were to be assumed for the moment that resources are *not* uniquely specific and are, instead, completely homogeneous, additional difficulties remain. Why, for instance, ought monopoly ownership to preclude the *possibility* of competition from potentially rivalrous entrepreneurs that *purchase* needed resources? Indeed, Kirzner himself has already stated that the market process is "*always*" competitive so long as there is freedom to buy and sell in the market.³¹ Even monopoly ownership does not erase the freedom to buy and sell since it is possible that access to resources could be obtained, say, through purchase. Yet Kirzner argues that the "*very possibilities themselves*" of competition may be eliminated by monopoly ownership of a resource.³²

Another difficulty with Professor Kirzner's approach is his use of the qualifying term, "*current* endowment of a certain resource."³³ Obviously, nothing prevents potentially rivalrous entrepreneurs from exploring for and exploiting new supplies of a specific resource. Indeed, "*current endowment*" of a resource is an ambiguous phrase since supplies of resources are normally classified as "*proved*," "*probable*," and "*possible*."

If Kirzner means to imply that a monopoly over the current *proved* endowment of a particular resource precludes the *possibility* of competition and allows the resource owner to be "immune from entrepreneurial competition,"³⁴ he would be arguing a tenuous point at best. Clearly such a "monopoly" allows no such thing. In this example, future³⁵ entry is clearly possible and cannot be precluded *a priori*. And since the entire Austrian tradition in this area is to treat the competitive process as one that unfolds through *time* anyway, how are the potential entrepreneurs effectively blocked from "discovering unexploited opportunities for profit"?

³⁰ Kirzner, *op. cit.*, p.103

³¹ *Ibid.*, p. 20. This statement would seem to refute Kirzner's entire position on monopoly. If markets are *always* competitive so long as there is freedom to buy and sell, then in a free market there is always competition and *never* any monopoly.

³² *Ibid.*, p. 103.

³³ *Ibid.*, p. 21.

³⁴ *Ibid.*, p.110.

³⁵ And "future" in an entrepreneurial sense can mean the *next* moment competitive supply appears or threatens to appear.

As a final point, monopoly over a resource would appear to make rational economic calculation difficult (if not impossible) since no "market" would then exist for the resource.³⁶ Without markets economic calculation is impossible since objective prices cannot be determined. A firm that monopolized "oranges" for instance, would have no objective way of knowing, subsequently, whether it was employing its resources efficiently in the production of "orange juice," or even whether it ought to be producing orange juice at all. This "definition" of monopoly, therefore, would appear to be operationally self-destructive. The monopoly position would tend to generate inevitable irrationalities in production since entrepreneurs would have no objective way to calculate "costs."

Mises, it will be recalled, realized the inherent difficulties of defining monopoly, and so he moved on to the catallactic significance of monopoly: obtaining the monopoly price and, thus, frustrating "the wishes of the consumers." Professor Kirzner, although he denies that the elasticity of the demand function has any bearing whatever on whether a monopoly exists or not, nonetheless does argue that resource monopoly is likely to result in a restricted employment of such resources, higher prices, and larger surpluses for the producer employing the resource.³⁷ Importantly, such ownership (at least in the short run) has "harmful effects" since it creates an incentive "for not using a scarce resource to the fullest extent compatible with the pattern of consumer's tastes in the market."³⁸

It is really difficult to see, however, why any of this argument necessarily follows. The "pattern of consumer tastes in the market" would appear to be, simply, consumer demand. Consumer demand is the variable amount of some homogeneous stock that consumers would be willing and able to purchase at various prices. The important point to be made here is that in a free market such "demand" determinations by consumers are completely voluntary on their part, and all price-output combinations on that hypothetical function faithfully reflect that choice and relate those "wishes" to the producers. Consequently, consumers are at all times in complete control of (fully *sovereign* over) their own property at any given price-output combination.

It appears completely arbitrary to argue that only "low" prices, or "lower" prices induced by "supply increases," or only the "elastic" portions of a consumer's demand function are compatible with consumer sovereignty. Why are not consumers fully "sovereign" throughout the entire price-output range of their *own* demand function? After all it is *they* who determine, in certain instances, that they will trade greater volumes of dollars for fewer units of some good. Indeed, to prevent them from engaging in such exchanges would more accurately infringe upon their "sovereignty." If and when consumers become dissatisfied with such combinations, they are perfectly free to change the "elasticity" of their own demand to combinations that they *do* prefer. If the above analysis is correct, it follows that resource owners or producers that voluntarily "restrict" their supplies to obtain higher prices (not "force" them up as Professor Kirzner asserts)³⁹ have committed no socially harmful act. Restricted supplies and higher prices *relative*

³⁶ See Rothbard's discussion of similar problems for cartels in *Man, Economy, and State*.

³⁷ Kirzner, *op. cit.*, p. 110.

³⁸ *Ibid.*, p. 111.

³⁹ *Ibid.*, p. 110.

to what? *All suppliers in free markets restrict their supplies in the sense that they only supply as much of a good or resource as they determine will maximize their monetary or psychic income. But, importantly, this is precisely what the "monopolist" does.* If his action is "harmful," then so is the economic activity of all other suppliers in the market.

Alternatively, it cannot be argued that what distinguishes "monopoly" supply from "competitive" supply is the consequently higher prices. In the first place we have already argued that the new price-output combination is perfectly compatible with expressed consumer demand and, therefore, with consumer sovereignty. Secondly, prices are always "high" relative to lower prices that *could* exist, but do not. Indeed, any price at all is "high," "frustrates" consumers, and reduces their ultimate utility from consumption. But surely the ability to charge a lower price than the prevailing market price, or no price at all, can hardly be a correct criterion for judging whether a supply is competitive or monopolistic. Indeed, since producers are *also* sovereign under free-market conditions, we must conclude that *any* supply is competitive and *any* price is "compatible" with consumer sovereignty and consumer satisfaction.

ROTHBARD'S MONOPOLY THEORY RECONSIDERED

Rothbard it will be recalled had defined monopoly as "a grant of special privilege from the State reserving a certain area of production to one particular individual or group." This definition of monopoly would appear to be immune from the sort of criticism employed above against both the neoclassical and Mises-Kirzner theories of monopoly. In the first place, we can be confident that competition is "lessened" by this sort of monopoly, and that resources are non-optimally allocated so far as consumers are concerned, since governmental monopoly restricts *by law* both competitive entry and, consequently, free consumer *choice*. Legal barriers to entry restrict entry by definition. Areas of production that are truly "naturally" monopolistic would hardly require *governmental* entry restrictions. Consequently, consumer choice must be distorted, and the subsequent resource allocations *must* be "inefficient," since consumers are prevented by law from making choices that differ from those already made for them by the political authority. Hence, we conclude that governmental monopoly *always* restricts competition, *always* violates consumer (and producer) sovereignty, and *always* "injures" consumer welfare.

It would be tempting to argue that these "restrictions" and "injuries" are, perhaps, minor in the case of "minor" legal impediments to either production or exchange. Yet, there is no satisfactory way to cardinaly measure either "competition" or consumer "utility." Since utility is a completely subjective notion, and since interpersonal comparisons of utility are not possible, there is no objective way to determine how severe even "minor" state impediments to entry and competition actually are. It is completely possible, for instance, that what may *appear* to be an extremely inoffensive governmental regulation, i.e., setting minimum safety standards for sellers, may in fact be harmful in the extreme with respect to certain potential businessmen and specific classes of consumers.

We conclude, therefore, that any and *all* state restrictions are "monopolistic," competition reducing, and destructive of consumer 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.