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Economics Essay #2

1. What are the arguments in favour of anti-monopoly legislation and under what conditions might monopolies be allowed to exist?

Before discussing the arguments in favour of anti-monopoly legislation and the conditions that a monopoly would be allowed to exist it is important to define monopoly and its market structure. It would be easy to define monopoly by considering the existance of only one firm in a certain industry. but the definition of industry is not always that specific. For example, BMW might have a monopoly in a specific type and design of a car but it certainly does not have a monopoly in the whole car industry area. Or 3M might hold a patent certificate and certainly a great slice of the Post-It notes but that does not mean that the consumer cannot access stick-on notes almost identical to the post-it's (and maybe in a smaller price). This is a vague definition of monopoly but a firm can be more certain about its power of monopoly when assesing the quantity and closeness of alternative products supplied by other companies. For example, electric supply in Greece is provided by only one company and until now its rivals, that would be solar, wind, gas and alternative forms of energy hardly can compare with it at the moment. Following the initial definition of the monopoly there is only one firm in the industry so the firm's demand curve is the industry's demand curve. The demand would be inelastic relatively at each price because the consumer has no option: buy the product at a higher price or not have the product at all. The actual elasticity will vary according to the relevant products supplied by other firms. For example if there are many and various stick-on notes of similar quality of those provided by 3M then demand would be more elastic for this product. A monopoly position in the industry is not created and maintained on its own though. There should be several barriers of entry for new firms high enough to block the entry of new firms. There are several types of barriers: (a) Product differentiation and brand loyalty. When a product is of such quality and type and is the only one that is associated with the customer for a specific purpose. This barrier can occur in a market where even two industrys are accumulating all the available economies of scale because the cost worries the customer less than the quality and fitness of the product. (b) An

economy of scale. This is a situation where the industry cannot support more than one producer. Under these conditions, if two firms each charging the same price and supplying half the industry output they would both face a downward sloping demand curve. They would not be able to cover costs whatever the price. (c) Established monopoly firm. This barrier of entry refers to a firm capable of doing everything in the most efficient way in order to prevent the entry of a competitor. Production and marketing skills would be high, techniques, reliable and cheap suppliers would be commited, finance would be cheap and all that for a lower cost curve that would render any other firm incapable to compete. (d) Owing key factors of production and/or distribution outlets. an embargo of a key ingredient of a drug to other companies who want to build it or owning the means of access to the customer (outlets) has obvious effects. (e) Legal protection. Patents, tariffs and other charges concerning the product discouraging future competitors. (f) Mergers and takeovers of all future competitors. (g) Agressive economic tactics can be of use as the monopolist firm has advantage over its new competitors to lose for a while but in general maintain its reign in the area (this can apply to intimidation of legal or illegal form).
After this definition of monopoly and its conditions of existance, the arguments in favour of anti-monopoly legislation can be discussed with greater ease. The main disadvantage of monopoly would be the potential harming of the public interest. To explain it in a broad way we can imagine a company selling a product used frequently and massively by the public taking advantage of it and create a network effect. That is, build a network of products created only by this company that are compatible rendering all other useless and pricing them as high as the company wants to. The landmark legal case concerning such an abuse is the case of US Justice Department against Microsoft. Microsoft, the leading operating system designer for personal computers, in 1998 decided to build an internet browser inside its operating system package. That move, according to the US Justice Departement was made in order to eliminate competition by rival browser-designing company Netscape by using Microsoft's monopoly in the operating systems field. Mainly this legal battle was not about Microsoft adding a browser to the Windows 98 package but for its policy concerning computer programs in general. If Microsoft ,whenever a worthy adversary appears (see Netscape), uses its monopoly power and strategies to intimidate him off the software market the whole software world would be a Microsoft dominated scene and the 'network effect' generated for its products would be obvious and dominating. In general, anti-monopoly legislation could be described as a

weapon used against the exploitation of the consumer by the large monopoly firms. As well as safeguarding consumers rights this type of legislation serves as well the 'public interest'. There are several criteria that should be met by the firms engaging in monopoly. Firstly, the target of the competition policy adopted by the government concerns the existing power of monopolies and oligopolies. This part of the competition policy targets is concerned with controlling the economic power of the firms. The approach has been to weigh up the gains and losses to the public of individual firms' behaviour. Secondly, to prevent massive growing of the monopoly power of a firm, the merger policy takes effect. Mergers and acquisitions are monitored so as to be in the public interest. The government judges if a merger or acquisition would be in the public interest and therefore allowed to proceed. Thirdly, government tries to prevent 'alliances' of firms which exploit their power to make bigger profits with the 'restrictive practice policy'. This policy aims to direct the companies, for one more time, to act for the public interest by allowing collusion of firms only when they sufficiently prove their willing to direct higher profits to investment or product development. In order to be more precise the EU has formed specific legislation covering these issues and if the firms comply by them they are allowed to exist in a monopoly market field. Article 85 of the Treaty of Rome covers joint decisions, agreements between firms and concerted practices that are aimed to the elimination of competition. Article 86 is concerned with the abuse of market power and 'agressive' monopolistic behaviour adopted by firms. Such practises can be banned according to this Article and firms can be fined. In the UK currently there is a restrictive practices policy which under Chapter I prohibition of the 1998 Competition Act, any agreement or concerted practice that has the object of preventing, restricting or distorting competition is illegal. Also, currently under chapter II prohibition of the 1998 Competition Act it is illegal for a dominant firm to exercise its market power in such a way as to reduce competition. The 1998 Act does not cover in a specific way mergers, they are covered by the 1973 Fair Trading Act, but in a broad manner even though not restricting mergers so as to control a firms monopoly power, by toughening its policy towards the abuse of this power it prevents excertion of monopoly power to the customer.

Finally, one can say that all measures and restrictive policies are not foolproof but they surely can give the consumer a sense of security and the firms an initiative for investment, development and enhancement of services or products provided.

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