The Washington Times
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Markets and monopolies

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Published January 9, 2004

How many companies sell computer software? How many companies sell telecommunications services?

The answer to the first question is tens of thousands, and the answer to the second question is thousands. Both industries are clearly highly competitive. Competitive markets are a goal of economic policy. Hence the government ought not to be concerned about software and telecommunications, yet it is engaged in destructive meddling.

Both the Justice Department and the Federal Communications Commission employ many lawyers whose job is to prevent monopolies. But what happens when there are no monopolies to prevent? Being able bureaucrats, these antitrust lawyers know that, to keep their jobs, they need to find monopolies, whether real or not. The way they do this is by defining a market more and more narrowly until they find a monopoly.

As an example, you as a customer decide you want to buy a sports utility vehicle. There are many automobile companies marketing various types of SUVs in the United States, so there clearly is plenty of consumer choice and no monopoly.

Now suppose you want to narrow your selection of an SUV to one that has a sliding rear roof that enables it to also serve as a small pickup truck. As far as I am aware, General Motors is the only company that now produces such a vehicle. Hence, GM has a monopoly in such a vehicle and the consumer has no choice. We are not concerned about it -- because if the vehicle proves popular, we know other companies will come out with similar models.

Oracle made a bid to buy another large software company last year, PeopleSoft. The Justice Department put a hold on the merger claiming it might monopolize a subset of the software market, called business application software. The Justice Department claimed the German company SAP and Oracle would be the only major competitors in this software sub-market, even though Oracle would still be No. 2.

I do not know if the merger makes economic sense for the stockholders of Oracle and PeopleSoft, but as an economist I do know the Justice Department complaint is nonsense. There are many companies selling products that can be fairly characterized as "business application software," even though they do not provide the full range of products that SAP, Oracle, PeopleSoft and some others do. Microsoft, IBM and others are quite capable of providing a full range of products if they so choose. There is no problem with market entry and consumer choice, properly defined.

What the Oracle/PeopleSoft case illustrates is not a problem with monopoly, but a problem of overstaffing in the Justice Department Anti-trust Division. Taxpayer money would be saved and economic efficiency enhanced if the Justice Department had far fewer antitrust lawyers.

The FCC is engaged in similar nonsense. Many years ago, most people had the choice of one telephone company. Today, most people who want to make a phone call or send an electronic message have the choice of many wireless companies, the old land-line phone company or their TV cable company. It is a highly competitive market.

Yet the bureaucrats at the FCC still choose to think we live in a world of a quarter-century ago, where the local phone company did have some monopoly pricing power. They are telling the local phone companies if they want to upgrade their services (such as providing fiber optic lines to local customers) they must make the upgraded lines available to their competitors at a government-determined price -- even though the TV cable companies, which can also provide high-speed Internet service, are not so restricted.

Would you invest the money and take the risk to build and operate a hotel if the government directed that you also had to provide rooms in your hotel, at a government-determined rate, for all your competitors to market at a higher price? And that you were required to clean and maintain the rooms sold by your competitors, and collect the monies for them from the guests? If you were rational, you would say "no" to such a one-sided deal; yet that is precisely what the local phone companies are being told they must do.

The predicable result is the phone companies, for perfectly good reasons, have not invested as much as they would in the new technologies to give Americans the superior high-speed Internet service they desire.

The inability or, more precisely, the unwillingness of the FCC bureaucrats to "think beyond stage one" has, in fact, resulted in less competition and inferior consumer choice, and far less economic efficiency. As with the Justice Department, the real problem is FCC overstaffing with too many bureaucrats who are more concerned about job preservation than the public good.

There are too many in government who refuse to distinguish between product differentiation that expands consumer choice, which is desirable, and real monopolies. If the administration and the Congress desire to be responsible by reducing government spending and increasing consumer choice and economic efficiency, they can begin by sharply cutting the budgets of the Justice Department and the FCC.

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