THE MALIGNED IMAGE OF MONOPOLY

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ABSTRACT
Ever since the fall of the Soviet Union in the 1990s, the media have proclaimed -- without any objective research evidence --that the former Soviet Republics and the Eastern European nations have been strapped by lack of market competition. Oligarchs, large influential families, had taken over the economy by exercising monopoly and thus controlling the price of the basic necessities of life. One article recently reported that the price of sugar would be raised by twenty-five percent in a former Soviet republic. The price was going to be raised by an MP (Member of Parliament) whose family had supposedly monopoly over the sale of sugar. The article sounded like indicting this oligarch family for taking advantage of the poor consumer. Monopoly has been invariably assigned an almost uniformly negative connotation. If a business maintains a "monopoly" in their respective fields, it is excluding other companies which deserve a fair chance to compete and to offer the best price to the consumer. This type of prejudice against all so-called "monopolies" is unwarranted, unfair, and even downright wrong. This paper implodes the myth surrounding the monstrosity of the monopoly dragon. Not all monopolies need to be feared and dismantled. A monopoly has many faces. Two major sorts of monopolies are objectively differentiated in this paper to de-mystify the maligned image of monopoly -- which could very well be the true engine of the economy.

INTRODUCTION

Every since the fall of the Soviet Union in the 1990s, one reads in the news now and then that the former Soviet Republics including most Eastern European nations have been devitalized by lack of competition in the marketplace. Oligarchs, large ruling families, had taken over the economy by exercising monopoly and thus controlling the price of the basic necessities of life.

For example, one article recently reported that the price of sugar in one of the former Soviet republics would be raised by twenty-five percent due to an increase of this commodity on the international market. The price was going to be raised by a MP (Member of Parliament) whose family had allegedly monopoly on the sale of sugar in his struggling country.

The article sounded like indicting this oligarch family for taking advantage of the poor consumer who lacked choice. The insinuation, innuendoes, and outright charges denigrated the family and condemned the raising of the price of sugar by the monopolist.

TRADITIONAL CONCEPT OF MONOPOLY

As you are well familiar with the concept, monopoly (which means one seller) has become a common and even colloquial term in the modern era. Invariably, it has been assigned an almost uniformly negative connotation. If one monopolizes the conversation in a social setting, one is considered to be unwelcome and even rude. If a business maintains a monopoly in their respective field, it is excluding other companies which deserve a fair chance to compete and offer the best price to the consumer.

This last sense of monopoly connotes an inherently unsavory and unethical business practice to the detriment of other businesses and the consumer at large. Monopolies are categorically considered to be counterproductive to the consumer and to the economy. The common contention is that they prevent competition, result in higher prices, sell poorer quality goods, and subject the consumer to the arbitrary whims of a single company. They deprive the consumer to have a choice. So in order to maintain the freedom of the market, one must fight against monopolies and potential monopolies. The traditional concept of P*igeon* holing all monopolies as being negative would be Quixotic.

This type of indiscriminate prejudice against all monopolies is unwarranted, unfair, and even wrong. Not all snakes are poisonous; not all snakes are dangerous. Likewise, not all monopolies are alike; not all monopolies need to be feared and dismantled.

VARIEGATED FACES OF MONOPOLIES

A monopoly has many faces. There are multiple types of monopolies classified by economic and legal experts under the same term. Of interest to us here are the two major sorts of monopolies which are differentiated on the basis of a most fundamental distinction: Efficiency Monopoly and Coercive Monopoly.

EFFICIENCY MONOPOLY

Efficiency monopoly can be defined broadly as "monopoly by success." Such a monopoly occurs when a single company (e.g., an oligarch) is so extremely successful, so productive and so efficient that it is able to satisfy customer needs, meet customer standards, and ensure customer satisfaction. In this way, the company becomes a monopoly which maintains dominance in its particular area of the market. By virtue of these characteristics, it can provide a better product or service at a better price than any other company or entity.

The key point is that an efficiency monopoly monopolizes by virtue of consumer choice and by no other means. A case in point is Microsoft Corporation with its Windows operating system. It has virtually no or fewer competitors because it would not be profitable for any given competitor to enter the company's field. Competition is open, though, it is simply not prudent, cost-effective, or potentially profitable for any other company to enter into competition.

Let us bear in mind that an efficiency monopoly is not unrestricted by certain conditions for it were to set prices at an unsatisfactory level, or produce inferior product, there would then exist a demand for competition, and make it profitable for a competitor to enter the field. An efficiency monopoly is bound strictly by the law of supply and demand as it functions in a free market.

Coercive Monopoly, on the other hand, is a monopoly of the sort that consumers, policy decision makers, the legislators justifiably fear because it has an exclusive control of a given field of production or service. The market is closed to and exempt from competition, so that those controlling the field are able to set arbitrary production policies and charge arbitrary prices. This type of behavior is done independent of the market, immune from the law of supply and demand.

The distinction between an efficiency monopoly and a coercive monopoly requires further discussion. What is at issue in the disparity between these definitions is how each type of monopoly is attained and maintained. As was previously mentioned in its definition, an efficiency monopoly gains its dominant market-share due to the choice of the consumers by engaging in monopolistic competition. It is however, still subject to the law of supply and demand. It does not forbid competition, but merely makes it hard and even untenable for other companies to enter the market by maintaining its efficiency.

COERCIVE MONOPOLY

A coercive monopoly, on the other hand, is not subject to the law of supply and demand. It is exempt from competition, prohibits any other compositor from entering the market, and by virtue of this prohibition, it is able to exercise arbitrary power over the market.

CONCLUSION

In conclusion, before one passes judgment on a company as being a monopolist due to its size, market share, or price setting price, and prejudicing the public against it, one should examine first as to what type of monopoly it is: efficiency or coercive? The oligarch which dominates the sale of sugar in one of the former Soviet republics may very well be an efficient monopoly. If that were the case, then we should not use the word "monopoly," but rather an "industry or market leader." This has more positive connotation. Therefore, instead of denigrating the oligarch family, we should be praising it for its efficiency.

While efficiency monopoly is a blessing, a coercive one is a curse for the economy and the consumer. After all, nature is full of examples of the flourishing of the fittest, be it in the animal or plant kingdom. For example, a plant in the forest that works hard by spreading its feeder roots wider for nutrients by trusting its tap root deeper for water tends to grow stronger and greener in the forest while not so hardworking plants tend to languish under the canopy of this tree which dominates the soil and the sun to out flourish the rest of its competitors in a given space. Humans appreciate and admire those entities that "flourish by being the fittest!"

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