Reprinted From:
UNITED PRESS INTERNATIONAL
8 SEPTEMBER 2001
[Denotes Original Publication Page Cite Where Available]*

COMMENTARY: A CRISIS OF CONSCIENCE

*By Lawrence J. Spiwak**
Special to United Press International
Washington, Sept. 8 (UPI)

For some strange reason, monopolists always feel it necessary to rationalize their dominance in the marketplace by showing benevolence to the people they serve.

In other words, they keep trying to sell the story to politicians and consumers that we should not worry about the lack of competition, as they – the "benevolent monopolist" – will provide us (especially those of us who attend grade school or live in rural areas) with all of the choices we may ever need or desire.

While it is everyone's birthright to be as delusional as they want to be, the big question is why, after case study after case study discredits this ridiculous perspective, do otherwise rational people keep buying this nonsense?

It is understandable that the culture of the "benevolent monopolist" remains strong in developing countries. When most of your population can't afford food, they can't afford major infrastructure.

Many Third World governments are forced to accept the Faustian dilemma of a having a monopolist who will provide a pathetic amount of service for the citizenry versus no service at all. Given the lack of resources, it is unsurprising that monopolies remain ensconced in developing countries, making any attempts at liberalization and maximization of consumer welfare a self-defeating exercise.

Similarly, although harder to rationalize, one can see why the "benevolent monopolist syndrome" remains strong in Europe – east and west – where the long history of institutional socialism and outright communism supports cultural assumptions that market forces don't actually work.

Many people in many of these countries believe state ownership of key sectors of the economy should be in the hands of the government, supporting the retention by government of a significant equity share in indigenous incumbent telephone and electric utilities. The promise to consumers of subsidized residential rates and plenty of safe jobs with the various utilities is a powerful political narcotic.

When it comes to the United States, however, there should be no excuse for the "benevolent monopolist" syndrome. Fifteen years ago in the AT&T Divestiture, the United States exercised sufficient political courage to reject outright the notion of a "benevolent monopolist," believing divestiture would not cause the end of civilized phone service.

To the contrary, the world wasn't flat and competition didn't result in the U.S. long-distance industry falling off the face of the planet while elderly pensioners lost their retirement nest eggs. U.S. consumers today benefit from vigorous long-distance competition.

With the current meltdown of the U.S. electric utility and telecoms industry, however, many U.S. consumers are forgetting the triumphs of the past and once again losing faith in markets.

The problem does not lie with markets; the problem lies with bad policy. Resolving the complex and often subtle issues raised by restructuring major sectors of the economy is hard. Significant long-distance competition exists today because policy-makers 15 years ago approached these complex issues with the solemnity and analytical rigor they deserved.

This is not the case with the recent electric utility and local telephone experience, where some in Washington approached these complex issues with hubris and in an analytically cavalier fashion. Because they attempted to undertake these restructurings on the analytical "cheap", therefore, consumers are now baring the brunt of the flawed structural policy decisions made five to eight years ago.

To illustrate this point, just look at the faltering telecoms industry. While a select few – in the name of competition – were able to raise huge amounts of "funny money" in the so-called boom economy of the late 1990's, we nonetheless witnessed the total reconcentration of the telephone, cable, and broadcast industries (in other words, state-sponsored market allocation). Thus, U.S. telecoms policies of the last decade were not so much as to create wealth, but to reallocate it.

Similarly, in the electric utility context, Washington steadfastly refused to examine the effects of the Federal Energy Regulatory Commission's transmission policies – the crucial "highway" between the turbine's magnets and your toaster. As a result, despite huge increase in demand over last seven years, recent Phoenix Center research reveals that new bulk transmission capacity over the prior seven-year period *has increased by only 0.05 percent*.

Now, as the analytical hubris of the structural policy decisions of the past have caught up and the inevitable financial meltdown is occurring – the economy falters, lay-offs increase, and the value of 401k retirement plans plummet – people are again scared and are looking quite naturally for a quick fix to their economic desperation. As a direct consequence, the "benevolent monopolist" argument – and the false economic safety it promises – is making a big comeback into the U.S. political debate.

What is so upsetting about this development is that while one could expect the average frustrated laymen to fall (again) for this pitch, Wall Street is also jumping on the "benevolent monopolist" bandwagon. At a recent conference held at the libertarian CATO Institute in Washington, D.C., a leading telecoms analyst had the temerity to contend, "Competition is a lousy investment theme. It erodes profits and slows growth."

While everyone on Wall Street would love to make huge returns with minimal risk, such an ignorant statement turns economic first principles on their head. Like it or not, competition is not a zero-sum game. To the contrary, competition forces all firms to be more efficient and to innovate. Accordingly, if you are fat and lazy monopolist and a more efficient competitor can offer better prices and services to consumers – and, as a result, you lose your steady stream of monopoly rents – then so be it.

Competition – like all other virtues – does not come easy. We have learned from history time and again that we cannot sacrifice long-term economic freedom and individual liberty at the short-term alter of the proverbial Golden Idol of the "benevolent monopolist." Instead, faith in economic theory and hard work is the only thing that is going to pull us through, for if we fail we have no one to blame but our own shortsightedness.