Chapter 5
Monopoly Abuse

ABSTRACT

Monopoly is the case when a firm provides products or services to which there is neither competition nor a near substitute, dictating price and quantity produced. Monopolies raise concerns of unethical business practice because they perform acts of conspiracy and collusion. Consumers will be buying needed products at unfair prices and questionable quality standards. The instrumental approach is when a company performs monopolistic behavior in order to maximize company profits and satisfy corporate shareholders. The social approach is when a company seeks the good of the greater environment, looking beyond the benefit of shareholders. Monopolistic behavior may provide certain positive advantages like helping expand different industries, generating a lot of capital into the business cycle, introducing innovation, and bringing a solution to some major economic problems. Disadvantages of monopolies are mal-distribution of the social product, decreased economic national growth, and increased unemployment levels, blocking competitive markets, and lacking socio-economic efficiency. This chapter explores monopolistic abuses.

INTRODUCTION

Monopoly power is an economic concept that many consumers want to avoid, since the seller benefits from charging a high price in order to increase revenue, while passing on the burden to consumers. According to Reed, "a monopoly is against the public interest and is unlawful" (Reed, 1916). Many economists believe that monopolies affect the price structure of the market through "higher prices, unfair dealing, restricted supply, and lack of freedom to enter the market" (DeMarco, 2001). Therefore, competition is highly required for the market to operate effectively especially in markets where goods and services are considered as necessities.

A market operates efficiently only at equilibrium price and any factor that reduces competition would be considered unjust (DeMarco, 2001). This unjust behavior is also reflected when the monopolist sets a very high price compared to the actual value of the product or service. Therefore, the theory behind unjust pricing is preventing the greatest good for the greatest number of people; this is reflected by the utilitarian ethical theory (Ghillyer, 2008).

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Many anti-trust laws have been introduced around the world to prevent monopolies from operating. The ethical issues related to these anti-trust laws are based on two theories. First, is the theory of universal ethics which states that "universal principles are seen to apply to everyone, everywhere, all the time" (Ghillyer, 2008). The second theory is related to the theory of justice, where people apply "right or wrong" depending on what the law states. Although monopolies are practiced differently in every country, they still have the same outcome on consumers.

In Lebanon many economists and politicians are encouraging the privatization of many state-owned industries, because they believe that privatization would end monopolistic abuse and would help the economy prosper through increasing efficiency and introducing competition. The telecommunication service companies, which were previously known as "Libancell" and "Cellis" were one of the sectors that were privatized in Lebanon. Several years passed after privatization took place and there is still no information about new firms entering the industry. The two companies operating today, which are known as "mtc touch" and "alfa," function together as a duopoly. This leads to an ethical problem, since most of the services offered in the telecommunication sector are regarded as necessities in today's global world. These companies are imposing extremely high prices for their services, in which many believe are one of the most expensive in the world. This is one of many examples of monopolistic behavior in Lebanon, where consumers always carry the burden of paying very high prices.

BACKGROUND OF MONOPOLY POWER

Economist William Hutt once stated "Political liberty, can survive only within an effective competitive economic system" (Hutt, 1936). Those words remain pillars for economic idealism. However, the business world we live in today is far from idealistic. When a certain firm dominates a sector in the market, it gives birth to a monopolistic face of the market. In the case of a monopoly, a firm would provide products or services to which there is neither a competition nor a near substitute, dictating price and quantity produced. It controls how much consumers sacrifice in order to obtain the monopolized product or service. That is, consumers can find no alternative to the monopolistic firm since none exist. According to Hutt, "the enemy of democracy is a monopoly in all of its forms: gigantic corporations, trade associations and other agencies for price control" (Hutt, 1936). It is important to note that a monopoly can never have unlimited power, because of governmental pressure. Governments have taken precautions and counter actions to fight the negative effects of monopolies, especially after the Great Depression of 1929. Though such actions do not terminate monopolies, they do somehow place controlling limits over them.

In some cases, even more, the government is itself the monopoly holder. In the Socialized Medicine: The Canadian Experience, economist Pierre Lemieux discusses the socialized medicine system in Canada. Socialized medicine is a form of monopoly whereby the medical industry is nationalized and thus controlled by the government. This form of system helps regulate medical care and removes business interest in this industry (Lemieux, 1989). As a result, the medical industry is no longer a for-profit industry, and medical care becomes much more accessible by the general public. Lemieux explains that this system "provides all Canadians with free basic health care: free doctors' visits, free hospital ward care, free surgery, free drugs and medicine while in the hospital" (Lemieux, 1989).

The main reason that gives rise to monopolistic power is a firm gaining control over the supply of raw materials being used. A good example is the

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