53. THE PHANTOM CALLED "MONOPOLY"*

Hans F. Sennholz

In their denunciation of capitalism the socialists use some frightful phantoms. The oldest and perhaps the most effective one is the notion that monopolistic concentration of business inheres permanently and inseparably in capitalism. They depict in vivid colors the horrors of monopolistic capitalism and then conclude that a free enterprise economy obviously requires governmental restraint lest it deteriorate to a chaotic system of business monopolies and public oppression.

Recalling the era of "trusts" and "tycoons" around the turn of this century, these socialists valiantly defend the Sherman Antitrust Act of 1890, the Federal Trade Commission Act, and the Clayton Antitrust Act of 1914 which aim at the suppression of business monopoly. And they will be shocked if anyone casts doubt on the wisdom of the antitrust legislation.

Unfortunately, even free enterprisers are divided on this point. Some defend our antitrust legislation and the governmental supervision of big business which it entails, while others summarily reject the prevailing notions on monopoly and the antitrust activity of the government.

An unbiased investigation of the monopoly problem might well begin with the question: Are monopolies inherently bad? Are they identical with destruction of competition, with enormous monopolistic gains, and with gouging of workers and consumers? Under what conditions, if any, are monopolies really the evil organizations which they are assumed to be?

In an unhampered market economy a monopoly affords no cause for alarm. A company that has exclusive control of a commodity or service in a particular market is prevented from exploiting the situation by the following competitive factors: potential competition, competition of substitutes, and the elasticity of demand.

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In the United States thousands of different commodities are each produced by a single producer, i.e., by a monopolist, and no one seems to care about it. The 5 and 10 cent stores are full of items produced by monopolists. And yet, all these items are sold at competitive prices. Why? Because of potential competition. As long as there is potential competition, a monopolist cannot charge monopolistic prices.

Potential Competition

Potential competition exists in all fields of production and commerce which anyone is free to enter. In other words, wherever government does not prevent free entry through licenses, franchises, and other controls, potential competition exists. Most corporations are searching continuously for new lines and items of production. They are eager to invade any field in which business earnings are unusually high.

The invasion of another field by a corporation may involve no more than a simple retooling or reorganization that is achieved in a few weeks or months. Or, brand new facilities may be employed for an invasion. Thus one producer, whether he is a monopolist, duopolist, or a competitor among many, always faces the potential competition of all other producers.

Even if a corporation the size of General Motors were a monopolist with regard to certain commodities, it would have to act as if it were a single producer among many. For it continuously faces potential competition from the Fords, Chryslers, General Electrics, and others. These potential competitors undoubtedly have the resources, technical know-how, and marketing organizations to compete with General Motors.

But even if competitors of similar size and structure should be absent, the monopolist must be mindful of the potential competition that can arise overnight. Numerous financiers, promoters, and speculators continuously search for opportunities to establish new enterprises. They have formed new giant companies in the past. And they are willing to risk their capital again if they see an opportunity for profits.

Dreading the promoter who may invade his field, the monopolist therefore must act as if he were surrounded by numerous competitors. He must be alert and always "competitive." He must continuously improve his product and reduce its price. For if he should relax, another company will soon invade his field. The newcomer is likely to be a formidable competitor for he has new machinery and equipment. He has new ideas and applies new methods of production. And he enjoys the good will of all customers. Indeed, a monopolist who relaxes invites disaster.

If an enterprise nevertheless enjoys a monopolistic position, it must by necessity be the most efficient producer in the field. In other words, *in an industry endowed with freedom of entrance, a monopoly is an efficiency monopoly.* For the government to impose restrictions on it or even dissolve it by force would be to destroy the most efficient producer and invite the less efficient to enter the field. In this case, the economy suffers a net loss in output and efficiency.

In my hometown a small manufacturer succeeded in gaining a monopolistic position in the production of creep testers, which are machines that test the behavior of materials at elevated temperatures. When I inquired into the reasons for his astonishing position, he explained with a smile: "I completely routed my two competitors, both billion-dollar corporations, by continuously improving the quality of my product and reducing its price. They finally abandoned the field." Obviously, he would immediately invite his formidable competitors to re-enter the field if he failed to improve his product in the future, or charged monopolistic prices.

That government has not investigated or prosecuted this monopolist probably is due to the smallness of his operations. Experience, however, suggests that such large corporations as General Motors, du Pont, or U.S. Steel would face governmental investigation and prosecution if they were the monopolist. If this is true—and unfortunately there is no reason to doubt it—governmental prosecution aims at big business rather than at monopolies.

But even if American enterprises failed to compete with each other and potential competition failed to exert a restraining influence on monopolists—which is a most unrealistic assumption—the people would escape monopolistic pricing through recourse to substitutes. In many fields the competition of substitutes is more important than that of competing producers.

People's wants may be satisfied by a variety of products and materials. In the manufacture of clothing, for instance, a dozen different materials vie with each other for the consumer's dollar. The monopolist of any one material is powerless because monopolistic pricing would induce consumers to switch immediately to other materials. The producers of suspenders compete not only with each other and with potential competitors, but also with the producers of belts. In the transportation industry the railroads compete with trucks, cars, airplanes, pipelines, and ships. In the building industry lumber competes with aluminum, steel, bricks, and stones. And Bayer's aspirin competes with Anacin and Bufferin.

In some cases, the adoption of substitutes requires large capital outlays which producers are not willing to make immediately. Complete substitution then will take time, although it will ultimately be as effective as immediate substitution. A railroad that wants to substitute oil for coal needs large capital for the purchase of diesel engines. Therefore, it may switch from coal to oil only when it needs to replace worn-out coal locomotives. A house owner may switch from coal to oil or natural gas when his old coal furnace must be replaced. Thus, within a period of several years, substitution will have its restraining effect on a monopolist.

Demand Elasticity

The existence of substitutes makes for demand elasticity which, in turn, makes monopolistic pricing unprofitable; for higher product prices would greatly curtail product demand, and thus sales and income, of the monopolist. Therefore, he again must act as if he were a competitor among many.

The same is true in all cases of demand elasticity, whether or not there are substitutes. For instance, electricity for heating must compete with such substitutes as oil, gas, and coal. However, as a source of light and of energy for power tools, it probably faces no substitutes. An electricity monopolist, nevertheless, would be greatly restrained by potential competition and demand elasticity.

If electricity prices would rise considerably, the most important consumers, such as industrial plants and other business organizations, would soon produce their own electricity. With the proper equipment anyone can produce his own. Of course, the monopolist may counteract this danger by charging different rates to his different classes of customers: low rates to all industrial users who are apt to produce their own electricity, and higher rates to all others. Assuming that residential users do not readily resort to independent power production, are they not liable to fall in the grip of a monopolist? No! Demand elasticity would prevent this. Many people undoubtedly could reduce their consumption of electricity without suffering mentionable discomfort. A house owner who may enjoy the light of a hundred bulbs on a winter evening might easily curtail his consumption if electricity charges should increase greatly. But this curtailment of demand would reduce the sales and income of the monopolist.

All producers in fact compete with all other producers for the consumer's dollars. The manufacturer of television sets competes with the manufacturer of freezers and refrigerators. If the monopolist of one commodity—say, television sets—should raise his price, the consumer may forego the purchase of a new set and buy instead a new refrigerator. We consumers do not allocate our income to the satisfaction of categories of wants but to that of specific wants yielding the greatest net addition to our well-being. This addition, in turn, is determined by the urgency of our wants and by the cost of acquisition. Rising costs obviously affect us adversely, which may induce us to purchase an entirely different product that now contributes most to our well-being.

Consumer resistance to monopolistic pricing finds expression in yet another form. People who suspect monopolistic practice by a producer tend to favor any newcomer who would compete with him. Any enterprise striving to invade the field is assured the patronage and good will of all dissatisfied consumers. In our example of the electricity monopolist, the industrial user producing electricity for his own consumption may decide to supply power also to his workers and neighbors who, at lower rates, would gladly transfer their patronage. Thus, in a free economy, even the electricity monopolist is greatly limited in his pricing policies.

The same limitations apply in all other industries, including the public utilities. A mail monopoly would face not only the people's demand elasticity for mailing services but also the potential competition by the numerous intercompany mailing systems. At the present time hundreds of companies have intercompany mail delivery systems that could expand their services to include their workers, customers, and other people in their communities if the law allowed. The case is the same with other "public utilities" supplying goods and services such as water, telephone, and telegraph.

On Optimum Growth

In a system of unhampered economic freedom, a monopolistic market position could be attained only through efficiency. Without government intervention, an efficient enterprise tends to grow until it reaches its optimum size at which the unit costs of production are lowest. This optimum depends on the nature of the industry, the state of the product and capital markets, the rate of taxation, and the caliber of management. Obviously, a steel company requires a much larger capital outlay and work force than does a dentist's office or a barber shop. Also, the enterprise managed by a brilliant businessman has a higher point of optimum than one managed by his mediocre successors. A monopolistic position can be attained only if the optimum size suffices to supply completely a given market.

The territorial expanse of the market which a monopoly is capable of supplying depends on two factors: the difference between the unit costs of production of the monopolist and those of his potential competitors, which determines the margin of superiority of the monopolist, and the unit costs of transportation, which are determined by the nature of the product and by the distances involved. A bulky commodity such as cement, for instance, is burdened with high costs of transportation. Consequently, the market of the cement monopolist will be relatively small, for an increase in distance from plant to consumer rapidly increases his unit costs. On the other hand, commodities with relatively low transportation costs such as watches or diamonds can be distributed over vast market areas.

This analysis of the territorial range of markets also reveals that bulky item monopolies are in a relatively favorable position to conduct monopolistic policies. While an American producer of watches must cope with foreign competitors all over the globe, a cement producer may be little concerned about the competition of another producer some 100 miles away. He may indeed be tempted to restrict output and raise prices in order to maximize his income. But, of course, such action would invite other producers to invade the territory of the monopolist. Another corporation soon would build a modern plant in that territory. With a new plant and the good will of all consumers, it undoubtedly would rout the monopolist.

It is apparent that a change in transportation costs, production technology, management, or any other cost factor can upset a monopolistic position. Also, a concentration beyond the optimum point is an invitation to failure, for the unit costs of production tend to increase again. The monopolist who disregards this fact invites potential competitors to invade his field and reduce him to his optimum size. There is no need for government to break up a giant enterprise; if it were too large, the competitors would reduce it.

This is not to deny that even in a capitalist economy a monopoly may temporarily reduce output and charge monopolistic prices. Having reached a monopolistic position through efficiency, a businessman may attempt henceforth to follow monopolistic policies. But the foregoing analysis clearly indicates that his attempts are bound to be short-lived. Soon, he will face a crucial struggle with powerful invaders producing with new equipment and enjoying the good will of the public. Of course, it is most unnatural and unlikely for a businessman to rise to eminence through product improvements and lower prices, and then suddenly to turn toward output curtailment and price increases. But if he should act in such a manner, which is conceivable, he practices self-destruction.

It cannot be denied that in our interventionist world many monopolies actually have the power to restrict output and charge monopolistic prices. But the reason for this unfortunate state of affairs is to be found in the multiplicity of government restrictions of competition. If the government prevents competitors from entering the field, the people lose their protection by potential competition. The public utility that enjoys an exclusive franchise is a local monopoly. In this case, the people's only line of resistance is their demand elasticity and perhaps, also, their recourse to independent production. Meanwhile, the planners resort to political controls.

Through franchises, licenses, patents, tariffs, and other restrictions, modern government has in fact created thousands of monopolies. Having thus crippled and hampered competition, it then proceeds to control the monopolies. Political bodies now decide vital economic questions in many important industries. They regulate our railroads, airlines, and other means of transportation. They grant exclusive franchises in radio, television, telephone, and telegraph. They monopolize the production and marketing of electricity, water, and gas. They issue patents that assure their recipients monopolistic positions. And, finally, they own and operate the whole postal industry and prevent competition through fines and imprisonments. In all these cases, the government effectively restricts competition and thus creates local or national monopolies.

Labor legislation has granted monopolistic powers to labor unions, which control whole industries employing hundreds of thousands of workers. They close down vital industries and cripple the entire economy. Through the union shop arrangement, or directly through brute force, they dictate employment conditions in thousands of enterprises. All this is done in perfectly legal sanctity without interference by the government. On the contrary, the legal framework for this union power is provided by the very government that professes to oppose monopolistic practices and positions in the economy.

This frightful union power, in turn, forces enterprises to unite. A small businessman cannot possibly meet the challenge of a powerful industry union. He therefore is tempted to sell out to a giant corporation with greater power of resistance. Of course, even the giant corporation will be closed by unions. But it cannot be destroyed as easily as can a smaller company.

Effects of Tax Policy

The confiscatory taxation imposed by the interventionist state causes the same industrial concentration. The middle-aged founder and owner of a million-dollar enterprise is forced to sell out to a large corporation for fear of confiscatory estate taxation. In case of his sudden demise his widow and heirs, who may not be qualified to carry on his business, will face confiscatory inheritance taxes. They would have to liquidate the business in a very short time to meet the tax liabilities. As the sale of a specialized business requires great skill and good timing, the sale by the widow probably would entail large losses. Therefore, a responsible businessman will arrange the liquidation of his own enterprise in good time. He himself will sell out to his corporate competitors and invest the proceeds in marketable securities. Government bonds, for instance, can be readily sold for estate tax purposes. Thus, hundreds of small companies disappear every year.

Especially the most efficient small enterprises tend to be liquidated on account of tax considerations. A going concern that generates profits is taxed at a rate of 52 per cent after which the corporate owner may be taxed at rates up to 91 per cent. If the owner should decide to liquidate his enterprise during the year, his profits are subject to a capital gains tax amounting to 25 per cent. It is obvious that a businessman is tempted to generate a maximum amount of profits in a given year and then quickly sell or liquidate his enterprise. Thus, hundreds of efficient "collapsible" companies disappear every year.

Governments Create Cartels

Since the rise of political intervention in economic affairs, governments have frequently organized or fostered the organization of cartels. These are combinations of enterprises for the purpose of controlling the output or marketing of a commodity or trade through regulation of production, allocation of markets, price fixing, or other means. This regulation always aims at assuring the cartel members a "fair" income, which means a higher income than they otherwise would have.

The German government led the way toward cartelization of key industries. From about 1880 to 1930 it organized more than 2,100 cartels. It was prompted to this disastrous policy by yet another intervention: its labor legislation. Since the 1880's, the German government had imposed tremendous "social" costs on its industry through social security legislation and other measures that increased labor costs and reduced labor efficiency. Without further government intervention, this social legislation would have put German producers at a competitive disadvantage against foreign producers. Under the new burden of social costs, they would have lost not only many foreign markets but probably some domestic markets as well. Then there would have been depression and unemployment until German wages declined sufficiently to offset the social security costs.

Instead of facing depression and unemployment, the German government decided to form cartels. It imposed high tariffs on foreign goods, which protected the German industries laboring under the heavy burden of labor legislation. Businessmen were thus enabled to raise prices, which meant that workers were obliged to pay for their social benefits through higher product prices instead of lower wages. In order to prevent unemployment in the export industries, the government encouraged them to sell their products at world market prices. Such sales involved losses, due to the burden of social costs, so the cartels adopted profit-sharing schemes by which the producers supplying the domestic market at higher prices were forced to subsidize exporters. Thus, the cartels commenced dumping, which tended to destroy the world market and the world division of labor.

In the United States the formation of trusts proceeded along similar lines. However, the motivating force was different. There was no social legislation depressing the American economy. Yet, the McKinley administration, by imposing high import restrictions, quite unintentionally achieved the same sort of trustification as was done intentionally by the Bismarck administration in Germany.

The Dingley Tariff of 1897, which became known as "the mother of trusts," granted tariff protection to basic industries. With industrial imports from Europe greatly reduced, the American producers enjoyed monopolistic positions. Consolidations took place on a large scale. During the "Golden Age of Trusts" between 1897 and 1904, 425 trusts were organized with a total capital of more than $20 billion.

This trustification of American industry was promoted by yet another factor for which the government was solely responsible. This was the rapid credit expansion that culminated in the panic of 1907 and the ensuing depression. "Easy money" permitted the organization of new corporations. It made the promotion of combinations most profitable, as new securities could be sold at premium prices. Consequently, Wall Street financiers eagerly promoted mergers and reorganizations on a vast scale. When, in 1903, investors began to question the overcapitalization of the industrial combines, a trust-share panic developed which signaled the temporary end of trustification.

Two decades later, when the Federal Reserve System was flooding the capital market with huge quantities of new credit, gigantic trusts again made their appearance. Easy financing permitted the organization of powerful holding companies that controlled production through several layers of subsidiaries. They reigned supreme in all industries that were sheltered from healthy competition through government franchises, charters, tariffs, and other restrictions. In the field of public utilities, nine holding company systems—among which the Insull group was outstanding—controlled about three-quarters of the power resources in the United States. Holding companies dominated one-fifth of the railroad mileage. As was to be expected, this period of industrial combination came to an end with the stock market crash in 1929.

A few years later, the Roosevelt administration resorted to extensive industry combinations in order to control the American economy. Under the National Industrial Recovery Act, the industries were organized along the lines of a cartel with codes that regulated most phases of production. The objective was shorter work hours, reduced production, higher prices. Under the Agricultural Adjustment Act, American agriculture was organized to reduce production by plowing under crops and thus raise agricultural prices artificially. It is a record of history that all these measures failed dismally. Instead of reviving the economy, they kept it in the grip of deep and lengthy depression. But it was the American government that enacted and enforced these policies which the enemies of capitalism ascribe to private corporations.

Antitrust Legislation

The failure to distinguish between the monopolistic tendencies of government and the propensity of private corporations to grow to optimum size probably underlies the American antitrust movement. Our Founding Fathers were fully aware of this difference. They were so hostile to monopoly power granted by government that Thomas Jefferson wanted to include an antimonopoly provision in the articles of the Constitution. But their hostility was aimed at monopolistic policies as they were conducted by the colonial powers of Europe before the age of capitalism. They condemned "mercantilism" which was an economic system similar to modern socialism. As Adam Smith had pointed out, monopoly was "the chief engine of mercantilism."

It was entirely natural that the nineteenth century disciples of capitalism should continue to oppose monopolistic endeavors. The common law as it developed in the United States reflected their attitude. But during the 1880's, the prevailing ideology began to change. Under the influence of new schools of thought that were hostile to various aspects of capitalism, the American public began to view with alarm the growth of industrial enterprise. Advancing technology, especially in the manufacturing and transportation fields, and the rapid accumulation of capital, made private enterprises grow by leaps and bounds. But such growth in most cases merely moved toward optimum size. Of course, in some cases a very successful entrepreneur may have overexpanded his organization, which sooner or later resulted in losses and failure. In other cases, government franchises, patents, tariffs, and other trade restrictions actually promoted the growth of monopolies. But public opinion, which was molded by numerous "antimonopoly parties," by the Populist and Grange movements, laid the blame solely on private enterprise. Thus, while the Founding Fathers had clearly recognized the role of government in every monopoly, their descendants from the 1880's on saw only the "monopolizing businessman."

Kansas was the first state to enact an antitrust law in 1889. It was quickly followed by other states. In 1890, in performance of campaign commitments and in response to widespread public demand, the federal government passed the Sherman Antitrust Act. The act set forth as a national policy the proposition that restraint of trade and monopolistic market positions of private corporations are contrary to the public interest. Later legislation included the Clayton Antitrust Act and the Federal Trade Commission Act, the Robinson-Patman Act, certain provisions of the Wilson Tariff Act, the Webb-Pomerene Act, and the miscellaneous provisions of other acts.

Responsibility for the enforcement of the antitrust laws was placed with the Antitrust Division of the Department of Justice. From a modest beginning, this division has grown today into a large bureaucracy with swarms of lawyers and investigators. During President Harrison's administration only seven cases were instituted against large corporations. President T. R. Roosevelt initiated 44 cases. Taft began 80, and Wilson 90. Coolidge's administration instituted 83 prosecutions, Roosevelt's 332, and Truman's 169. It is significant that the Roosevelt administration filed its 332 formal charges although its National Industrial Recovery Administration had suspended the Sherman Act and was occupied with organizing the American economy along the lines of a cartel. Under President Eisenhower's administration, the number of prosecutions per year promises to be even higher than under any preceding administration.

These figures suggest that the antitrust prosecution of American corporations shows a marked tendency toward acceleration. Two reasons may account for this ominous development. First, the growing antitrust bureaucracy feels compelled to bring proof for the justification of its existence and growth. An antitrust lawyer knows of no better evidence of his worth than the number of his prosecutions. Consequently, he will file more and more charges against businessmen. Then, these charges, being made in the limelight of nationwide publicity, poison the political atmosphere and create further business hostility that demands more charges. In fact, the antitrust charges of the U.S. Justice Department have created a badly distorted picture of our enterprise economy, which has contributed to the rise of a political ideology that is opposed to capitalism. Today, the Antitrust Division is an efficient arm of government omnipotence. It has prosecuted virtually every large corporation in the country and continues to embarrass and harass thousands of businessmen, especially the most eminent.

The New Ideology

Of course, the government lawyers and eager politicians offer a different explanation for the acceleration of their antitrust activity. According to them, the mature capitalist economy, such as the American, tends to deteriorate into a monopolistic economy that deprives small enterprises of fair and equal chances; increased monopolization requires increasing antitrust prosecution; the restraint of trade by big business is the cause, and the government actions are its effect, not vice versa.

No matter how plausible, this is a vicious line of thought taken from the armory of Marxism. According to Karl Marx, the proclaimed father of modern socialism and communism, the exploitation of the workers by the capitalists leads to industrial concentration and monopolization. A declining number of industrialists grow richer and richer while the masses of the people form an ever-growing army of paupers and unemployed. Finally, this process of concentration will come to a head when the people expropriate the expropriators. Thus, socialism is born.

Our statist politicians and antitrust bureaucrats embrace the first half of this Marxian explanation. They subscribe to the theory that our capitalist system breeds monopolies. But then they part with Marx by proclaiming their desire to save this monopoly-breeding system from its own destruction. They propose to destroy the monopolies through government action.

We need not here refute this argumentation. Our foregoing discussion of potential competition, competition of substitutes, and the optimum size of capitalist enterprises contains a cogent refutation. But we wonder about the sincerity of the government intention to preserve our capitalist system. How can it seriously oppose monopolies if the government itself continuously is creating them?

A modern offshoot of the Marxian concentration theory is the "monopolistic competition theory" which is propagated at hundreds of our colleges and universities. It was first stated by Edward H. Chamberlin of Harvard University and Mrs. Joan Robinson of Cambridge University. Both believe that the old idea of alternative—either monopoly or competition—is fallacious, and that both situations are combined in our economic system. The monopoly of each producer in his own brand is the starting point that gives producers the power to "administer prices," gouge consumers, and exploit workers. Pure or perfect competition, they believe, can only exist if the number of competing producers is large and if they deal in perfectly standardized products.

The foregoing discussion of potential competition clearly denies the requirement of numerous competitors. Competition is at work, even if there be only one producer. For, in an industry without government franchises or other entrance restrictions, the monopolist must act as if he were surrounded by hundreds of competitors. If he were to attempt to restrict output in order to raise prices, he would invite immediate invasion by other producers.

The requirement of a perfectly standardized product is based on the assumption that consumers can be pulled into a monopolistic grip by trade names, minor product variations, by advertisement, and other producer devices. Once you drive a Ford car, you will always be sold on Ford products. This consumer habit will give Ford a monopolistic position which entails the power to charge monopolistic prices.

We reject this assumption of a dull and gullible public. We believe that people continuously shop around, comparing the quality of products with different trade names and labels. Many consumers switch brands and suppliers, always seeking the better product for their money. Consequently, the

Ford manufacturers compete not only with General Motors cars, Chrysler cars, American Motors cars, all foreign cars, but also with the manufacturers of houses, freezers, washers, dryers, and so on. For the high price of one product may induce us to buy an entirely different product.

The monopolistic competition theory offers as frail a foundation for government antitrust activity as the Marxian concentration theory itself. Both fail to describe and explain capitalism. But they are succeeding in destroying American big business which is the mainstay of our high standard of living. In fact, they are destroying competition and individual enterprise.

54. ADVERTISING*

Israel M. Kirzner

Advertising has been badly treated by many scholars who should know better. Not only Marxists and liberals, but even conservatives have given advertising a bad press. Let us examine some of the criticisms.

- First, many advertising messages are said to be offensive—by esthetic or ethical and moral standards. Unfettered, unhampered, laissez-faire capitalism, it is contended, would propagate such messages in a way that could very well demoralize and offend the tastes and morals of members of society.
- Second, advertising, it is argued, is deceitful, fraudulent, full of lies. Misinformation is spread by advertising, in print, on the airwaves, and this does harm to the members of society; for that reason advertising should be controlled, limited, taxed away.
- Third, it is argued that where advertising is not deceitful, it is at best persuasive. That is, it attempts to change people's tastes. It attempts not to fulfill the desires of man but to change his desires to fit that which has been produced. The claim of the market economist has always been that the free market generates the flow of production along the lines that satisfy consumer tastes; their tastes determine what shall be produced—briefly, consumer sovereignty. On the contrary, the critics of advertising argue, capitalism has developed into a system where producers produce and then mold men's minds to buy that which has been produced. Rather than production being governed by consumer sovereignty, quite the reverse: the consumer is governed by producer sovereignty.
- A fourth criticism has been that advertising propagates monopoly and is antithetical to competition. In a competitive economy, it is pointed out, there would be no advertising; each seller would sell as much as he would like to sell without having to convince consumers to buy that which they would not otherwise have bought. So, advertising is made possible by imperfections in the market. More seriously, it is contended, advertising leads toward monopoly by building up a wall of good will, a protective wall of loyalty among consumers which renders a particular product immune to outside competition. Competing products, which do not share in the fruits of the advertising campaign, find themselves on the outside. This barrier to entry may gradually lead a particular producer to control a share of the market which is rendered invulnerable to the winds of outside competition.
- Finally—and this in a way sums up all of these criticisms—advertising is condemned as wasteful. The consumer pays a price for a product which covers a very large sum of money spent on advertising. Advertising does not change the commodity that has been purchased; it could have been produced and sold at a much lower price without the advertising. In other words, resources are being used and paid for by the consumer without his receiving anything that he could not have received in their absence.

These are serious criticisms. We have learned to expect them to be emphasized by contemporary liberal economists. To Marxist thinkers, again, advertising is essential for capitalism; it is seen as a socially useless device necessary in order to get excess production sold. They see no positive elements in advertising at all. But even conservative thinkers and economists have pointed out some apparent limitations, weaknesses, criticisms of advertising.

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