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AUSTRIAN MONOPOLY THEORY — A CRITIQUE*

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There are two views of monopoly within what might be called the broad Austrian camp. According to the Mises–Kirzner view,[1,2] monopoly price can exist on the free market, and a necessary part of its definition is a purposeful withholding of resources on the part of the monopolist. Rothbard,[3] however, defines monopoly as an exclusive government grant of trading privileges, and, as such, finds it incompatible with market freedom.

In this paper I shall criticize the former view, (1) by considering alternative interpretations to monopolistic withholding, and (2) by considering several inconsistencies on the part of its proponents.

I. ALTERNATIVE EXPLANATIONS

The case against the monopolistic withholding thesis is complete, and in my opinion, overwhelming. The first nail in the coffin is that there is simply no scientific way of establishing whether any given price that exists on the market is a monopolistic price, or not. Asks Professor Rothbard, "Is the market price, OP, a 'competitive price' or a 'monopoly price'? The answer is that *there is no way of knowing*. Contrary to the assumptions of the theory, there is no 'competitive price' which is clearly established somewhere, and which we may compare OP with."[4] Nor is it just a matter of our *practical* inability to separate the two kinds of prices, in the way that we cannot, in practice, distinguish between originary interest and the risk and inflation premium factors which are also part of the market rate of interest. As Rothbard puts it: "These [interest rate] concepts are each definable in terms independent of one another, and of the complex reality being investigated . . . Each of these components is definable independently of the complex market-interest rate and moreover, is independently deducible from the axioms of praxeology."[5] "Competitive price" and "monopoly price," in contrast, are each tied closely, and even incestuously together, and both are completely unconnected to the main corpus of economic thought. It will not do to define the monopoly price as "higher than the competitive price," to cite the most usual definition. For the compettitive price is higher than subcompetitive prices,[6] and therefore, by this definition, must be considered a monopoly price. But this would mean that a competitive price would *be* a monopoly price, a patent absurdity.

But let us grant, for the sake of argument, that it is somehow conceptually possible to distinguish between a lower price, where more product is sold, and a higher price, where less is sold. It by no means follows, however, that the former price is "competitive" and that the latter is "monopolistic". Even if we concede, in addition, that such behavior is "purposeful" and "deliberate," we cannot reach this conclusion. For there are several other plausible explanations for "withholding" part of the product, and thereby increasing its price.

Goods may be "withheld" from the market for speculative purposes. If the owner of merchandise expects that the price of his commodity will be higher in the next period than in the present, he will hold off sales, in the hope of gaining greater profit, but this will imply fewer sales right now.

It is sometimes stated, by proponents of the

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Mises–Kirzner view, that "*only* a monopolist resource owner may possibly be able to obtain greater monetary revenue from exchange by selling less than by selling more." But the case of the speculator is clearly a counter-example. For surely *any* investor, whether monopolist or not, who correctly foresees a rise in the price of a commodity he holds, and sells less of it in the present than he would otherwise have sold, gains revenue from exchanging goods for money in this manner. Suspending judgment, for the moment, on the question of whether the monopolist can increase his revenue by selling less, it cannot be denied that the speculator who sees the price rise coming can gain, through exchange, by selling less now and more later.

Time preference is another phenomenon that can account for a resource owner's refusal to sell off as much of his property, and as quickly, as the Mises–Kirzner view might desire. Based on their subjective time preferences, *all* economic actors determine their optimal pattern of sales. A person with high time preference will want to sell the commodities he owns at a relatively rapid pace. No problem here, for the highly impatient, high time preference individual will do anything *but* "withhold" from the market in the present. But the case of low time preference presents difficulties. An entrepreneur with low time preference is likely to "bide his time", and not allow himself to be rushed into premature sales; his optimal pattern of sales will call for "withholding" goods from the market now, and selling more and more as time goes on. He, too, benefits financially from his "withholding" pattern of exchange, for his subsequent sales are worth relatively more to him than to the high time preference person, since he discounts the future less heavily.

Conservation is yet another reason for selling less of a natural resource than might otherwise be sold. The owner who is motivated to conserve his resource will refuse to sell it all in the present period. He will "hold back" some of it. But he acts in this way not from any monopolistic motive; he "withholds" his assets from present sale in order to conserve their future use. Were he not to act in this way, the resource would simply vanish from the economy after it was sold. Or if it did not vanish, it would mean that some of the buyers subsequently withheld the resource from use after their purchase. But then they, in turn, would be accused of "vicious" monopolistic withholding.

The owner of the natural resource does not try to maximize his sales in the present period; rather, he tries to maximize his return over the whole period during which the good is sold. He will only sell it all right away if he calculates that this is the best method of maximizing his profit.

What is the optimal time pattern of the sale (and use) of natural resources? Although this is impossible to determine in advance, for any specific case, the general answer would be: In accordance with the time preference rate prevailing in the community. Thus, in an extremely high time preference economy, more profit could be earned by selling far more of the resource in the present and early future, since sales in the distant future would be heavily discounted. There would be little conservation in this case. Obversely, if the economic actors had a lower time preference, it would be profitable to engage in more conservation, holding off the bulk of the sale (and use) until later periods. The pattern, here, would indicate a more balanced or steady rate of utilization.

But the important thing to note is that *it is impossible to distinguish the conservationist motivation for withholding the sale of resources from the monopolistic one* (we are still assuming that it makes sense even to talk of a "monopolistic" motivation for withholding resources.) And not just for an outside observer. It is impossible for the very entrepreneur in question to make such a distinction! All that the resource owner (and the economist) can know is that profits can be maximized from a time pattern which includes fewer present sales of the good than is desired by the antimonopolist. The owner calculates that he can earn more, ultimately, if he sells less right now. Is he doing this as a monopolist or a conservationist? It is impossible for us to tell, and it is impossible even for *him* to know. All that can be known is that more profits may be earned from this time pattern of sales, than from that one. But this much can be said for *all* business choices: One path is better than another.

A desire for leisure can bring about a similar result. Muhammad Ali may choose to fight only three times per year even though he would certainly be able to contract for 52 bouts in a year, or even more, were he so disposed. Now one reason for this behaviour might be a vicious attempt on Ali's part to "defy the orders of the consumers for his own advantage",[7] to "infringe (upon) the supremacy of the consumers and the democracy of the market",[8] and to "defy the supremacy of the consumers and substitute the private interests of the monopolist for those of the public".[9] But another explanation, much more plausible, is that Ali won't fight 52 times a year because he would start to get very tired, and would probably begin to *lose*. Another possibility, a very strong one, indeed, is that Ali has a taste for leisure, and, earning so much money from his ringside exploits, he can afford to give in to this taste.

Still another alternative explanation for "monopolistic withholding" is that producers are also *consumers*, and may derive pleasure from *less* production. An owner of forests may refuse to cut them down, not out of a desire to balk the "use of a scarce resource to the fullest extent compatible with the pattern of [other] consumer's tastes [for wood] *in the market*",[10] but because he enjoys the vista of a virgin forest. Now of course, the problems of monopoly do not arise, for Mises and Kirzner, if there are other forests which are indistinguishable, in the eyes of the wood consumers, from the first. But in the eyes of *some* consumers, the particular wood from the forest of the owner who enjoys the beautiful view may be *special*, and different from all other wood. In that case, the Mises–Kirzner interpretation of monopolistic withholding would run contrary to the aesthetic explanation.

Other alternatives: a farmer may refuse to harvest his entire crop out of charitable impulses. He may want to have a portion unharvested so that gleaners may be helped. Alternatively, he may do this for religious purposes, or to placate Mother Nature, or in order to better fertilize the land.

Professor Kirzner, I think, misunderstands the importance of the alternative interpretation of consumption on the part of the "withholding" monopolist. He states:

> Where, however, all the available endowment of a particular resource happens to be owned by a single individual, a different state of affairs *may* (not must, or will) result. It is just possible that the owner may find his revenue from selling the resource to be able to be increased by his withholding a portion of it from *productive use*. He withholds the resource, in this case, not because his valuation of it as a consumer is such as to make it worthwhile to forego the high price it can bring; *in fact he may even destroy the resource*. He *withholds it only to secure the higher revenue* obtainable given the inelasticity of demand for the resource.[11]

First, why does Professor Kirzner *assume* that the monopolist cannot hold back a part of his product for his own enjoyment? It would seem to be an unsupported value judgment on Professor Kirzner's part to imply that any unsold merchandise cannot be for "productive use". Surely consumption, the whole point of production in the first place, *is* a productive use ("productive" in the normative sense of the word as Kirzner uses it); we know, from our study of praxeology, that, at least in the eyes of the manufacturer, this unsold, "withheld" portion of the product is *more* productive as his own consumption than it would have been had it been sold — otherwise the entrepreneur would have *sold* it.

Secondly, Professor Kirzner seems to assume that *if* the resource owner "destroys the resource" this is proof positive, or at least a very strong indication, that he is a seeker after monopoly prices, and not a *bona fide* consumer. The truth is almost the exact opposite. Take oranges, for example, a fruit Professor Kirzner seems inordinately fond of. Is it not true, that Professor Kirzner himself, when he sits down to breakfast, and consumes oranges, *destroys* them? Certainly, by cutting them up, and then devouring their innards, he is ruining their economic value for others. But even in the most literal sense, his malicious breakfasting upon oranges cannot be described in any other way but that he is *destroying* those oranges.

How then is Professor Kirzner, ravager of defenseless oranges, in a moral (economic) position to complain that *other people* (the supposed monopolists) destroy oranges? He might complain of ill use here, and reply that while he *eats* them, the orange monopolist would *burn* them. But to do this would be to confess to the charge of provincialism, intolerance and parochialism. Surely Professor Kirzner would not be outraged and accuse someone of non-consumerism, if he ate oranges with chopsticks, with a spoon, or salted them first. Why, then, cannot Professor Kirzner find it in his heart to allow for the possibility of consumption through *burning*? People *consume* wood, coal, oil, etc., by burning them, after all. Of course, it is a bit *unusual* to consume oranges in this manner, and Amy Vanderbilt might be outraged, and have any number of harsh comments to make; but as a praxeologist, Professor Kirzner, I fear, is *compelled* not to disallow esoteric orange burning as a consumption activity. As an *economist* Professor Kirzner cannot reason from "he may even destroy the resources" to "he withholds it only to secure the higher revenues obtainable . . . ". For there are several *alternatives*: among them, consumption.

Thirdly, what are we to make of Professor Kirzner's emphasis on the non-necessity of monopoly (it is "just possible", it "*may*" result)? We can interpret this in two ways. One, although an owner of an entire resource withholds some of it, he may not achieve a monopoly price, presumably because consumer demand is too elastic, or two, *even if* consumer demand is as inelastic as the single owner of the resource could wish, *he still* might not be able to attain a monopoly price. In the former case, there is little to be said. This interpretation is entirely consistent with the neoclassical view of monopoly, and needs no discussion here.

But, if the second interpretation is correct, Professor Kirzner has a curious view of monopoly indeed. Curious, because inconsistent with Occam's Razor: the law of parsimony. It leaves unanswered the question, "If not, why not?" If the sole ownership of a resource *plus* an inelastic demand cannot guarantee a monopoly, why not? One answer Professor Kirzner gives is: "Speculation". In other words, given sole ownership, and the proper inelasticities, *and* "withholding", we still do not arrive at monopoly; we still have the alternative explanation of speculation. The sole resource owner "withholds", but *not* in order to achieve a monopoly price; rather, because of expected price increases for the resource.

The quandary is, how can the praxeologist tell the difference? The human *actions*, as we have seen, will be identical. Even ignoring consumption and other alternative explanations to "withholding", we still have one too many explanations. Occam's Razor would suggest that one of them be abandoned. I suggest we abandon the myth of monopoly pricing.

Perhaps the strongest antidote to the monopolistic withholding view is the realization that ALL businessmen "lower" production in order to raise profits. Consider any amount, Q, that is presently being produced by any company. This manufacturer chose Q, but he could have chosen $Q + \Delta Q$ instead. He could have chosen to produce a little bit more. The presumption is that he chose Q and not $Q + \Delta Q$ because he determined that Q and not $Q + \Delta Q$ would earn the greatest profits. But this, as we have seen, applies to all firms without exception. (The only way to deny this point would be to embrace the orthodox view of monopoly and competition. This is a static model, where the important determination is market concentration. In this paper, I ignore concentration phenomena, since I am concerned only with Austrian views on monopoly, and all Austrians see the market as a process, not as an equilibrium model.)

As Professor Dominic Armentano states, in reporting on the views of Professor Rothbard: "All we know is that *all* firms attempt to produce a stock of goods that maximizes their net income given their *estimation* of demand. They attempt to price such that the range of demand above the asking price is elastic. If they discover that they can increase their monetary income by producing less — or even destroying existing stock in the next selling period, then they do so."[12]

The point that I think must be drawn from the foregoing discussion is that there are no unique human actions, available for all to see, that logically imply the existence of monopoly price (we are still assuming, for the sake of argument, that it makes sense to even speak of a difference between the "monopoly price" and the "competitive price".) There is no behavior, on the part of the businessman, that can establish him as an attainer of a monopoly price. No outsider can approach a person, and say, "You, sir, are a monopolist!" But, if there is no actual behavior that can unquestionably establish the fact of monopoly price, and it is true that all businessmen "withhold" in the sense that they could have produced more but refused to do so, out of a concern for their profit position, then we as praxeologists are compelled to renounce the concept of free market monopoly price as meaningless, or at least as nonpraxeological and arbitrary.

To support this contention, I quote no less an authority on praxeology than Ludwig Von Mises:

> One must not forget that the scale of values or wants manifests itself only in the reality of action. These scales have no independent existence apart from the actual behavior of individuals. The only source from which our knowledge concerning these scales is derived is the observation of a man's actions. Every action is always in perfect agreement with the scale of values or wants because these scales are nothing but an instrument for the interpretation of a man's acting.[13]

Although Mises was speaking here of values, and not explicitly of the choices made by profit-maximizing businessmen, I think we can interpret him as opposing the creation of, and loving attention given to, motives that may or may not be truly descriptive of an acting businessman. In other words, it is the *actual behavior of individuals* that is the grist for the praxeologist's mill, and not any number of motives, all of which are consistent with the same objective behavior.

If my interpretation is correct, then we can view Mises in this way when he says

> This is not the attitude of praxeology and economics. They are fully aware of the fact that the ultimate ends of human action [motives] are not open to examination from any absolute standard. Ultimate ends are ultimately given, they are purely subjective, they differ with various people and with the same people at various moments in their lives. Praxeology and economics deal with the means for the attainment of ends chosen by the acting individuals. They do not express any opinion with regard to such problems as [which of several motives, all compatible with the same action, are truly descriptive of that action.][14]

And again, if we can continue to put words into Mises' mouth, and interpret what he has to say of values, in terms of motives:

> In the frame of a theoretical science of human action, there is no room for such a distinction. Any examination of ultimate ends [motives] turns out to be purely subjective and therefore arbitrary.[15]

We cannot leave this section without remarking on the *reductioad absurdum*, according to which the Mises–Kirzner view implies that all businessmen are monopolists: they all *could* have produced more, did not, and therefore are guilty of "withholding" from their masters, the consumers.

Professor Kirzner, in attempting to show that market monopoly implies exclusive control over a resource, states, "Without access to oranges, entry into the production of orange juice *is* blocked".[16] But, in the real world, consumers distinguish between biologically and chemically identical things: Chiquita bananas and Perdue chickens being the most famous cases in point. Now, the Chiquita banana company by no means controls *all* bananas, but it is the complete and full monopolist of the resource known as "Chiquita bananas". Is the company a monopolist in the Mises–Kirzner view (assuming the demand elasticities necessary for monopoly price)? If yes, then there is an awful lot of monopoly running loose on the free market. Consumers' sovereign desires are being balked at almost every turn, and perhaps we will soon be faced with the spectre of an Austrian-supported government anti-trust policy. If not, it can only be because the non-Chiquita bananas are substitutes for Chiquita's bananas. But if this is so, then how can mere ownership of all the oranges confer a monopoly? For are not grapefruits, watermelons, tangerines and other fruits substitutes for oranges?

Another concept which threatens to multiply, without definite limit, the amount of "monopoly" pricing on the free market, is that of geographical monopoly. By the very nature of reality, each good, commodity or service must exist, or occur, at or in a definite, and different, geographical place or location. Each kernel of wheat, piece of wood, and drop of water must be found at one, and only one, place. If monopoly is defined as ownership of the complete supply of a good, and each different location confers the status of "different commodity" on a good, then every owner of any resource is a monopolistic owner. The grocer at the northeast corner of Elm Street and

King Avenue is a monopolist grocer because, by definition, he is the *only* grocer on that particular corner. There may be other groceries nearby, but they sell goods which differ in at least one respect: they are located at a different place.

II. INCONSISTENCIES

In this section, I explore the works of Kirzner and von Mises other than those cited above on "withholding," in order to show that they are at variance with their own views on monopoly. The first example concerns Kirzner's critique of Benedetto Croce's analysis of economic error.[17]

According to Croce, error consists of a failure of will, an inability to keep one's goal firmly in mind, and to stick to it. The erroneous person allows a whole host of fleeting temptations to divert himself from his own true goals.

And what has Professor Kirzner to say of this?

> It seems impossible, from the point of view of pure science, to distinguish between true goals, and erroneous, transient ones. Once we have accepted the possibility that man can discard yesterday's goals and adopt new ones towards which he will direct today's purposeful actions — we have surrendered the possibility of labelling the pursuit of any end . . . as, on scientific grounds, an erroneous one. Croce's economic error, it then turns out, emerges only as a result of involving (unspecified) judgements of value in terms of which to classify, from a man's *own* point of view, those goals of his which it is "correct" to pursue, and those the pursuit of which he must consider an error.[18]

At the outset, let me register my agreement with Professor Kirzner on Croce's views of error. Once we accept the view that the scale of values finds manifestation *only* in action, it seems impossible, indeed, as scientists or praxeologists, to allow that the original goal was the "true one" while the present goal is only a "fleeting temptation".

But what happens if we insist that Kirzner's monopoly analysis remain true to his quite correct views on Croce? Then, it seems, that Kirzner must relinquish his insistence that the monopolist "has withheld the use of some of his stock from the market, forcing up the price the market must pay for the smaller remaining quantity".[19] For this insistence "emerges only as a result of involving (unspecified) judgments of value", to wit, that actions which can well be explained in terms of a desire for leisure, speculation, consumption, profits, etc., are nevertheless to be understood in terms of a monopolistic withholding, in order to raise prices. We know, however, that ALL businessmen, without exception, attempt to maximize profits (monetary or psychic) by producing less than they *could* have; what, then, can be the justification for insisting that there are any cases in the real world which conform to the idea of the free market monopoly?

Certainly, no such leap of faith can be made "from the point of view of *pure science*", for (to re-interpret Kirzner's words on Croce's views of error), "it seems impossible, from the point of view of pure science, to distinguish between monopolistic motivations for producing less than it is physically possible to produce, in order to charge higher prices, and other motivations (leisure, speculation, consumption, the ordinary, non-monopolistic desire to raise prices to that level that maximizes profits)". *Kirzner's* error, it then turns out, "emerges only as a result of involving (unspecified) judgments of value".

Let us try to make this point in another way. In his attack on Croce, Kirzner seems to be saying that since goals can only be manifested by human action, it is unscientific to deduce one particular goal from an action that might be based on another. Why *else* would it be "improper" and "unscientific" to distinguish between "true" goals, and erroneous, transient ones? Surely, if a "true" goal could have only one reflection in human action, and a frivolous or transient purpose must necessarily have a different counterpart, then it *would* be scientific to distinguish between them, based on their differing manifestations.

What I do, in my criticism of Kirzner, is to insist that the above analysis applies equally as well to motives for "withholding" production. That here, too, different internal states of affairs may equally well result in the same "restrictionist" behavior. How, then, can it be scientific to insist that the "true" explanation is monopolistic pricing? Based on this argument, I conclude that it is unscientific to conclude that *any* particular case of pricing in the real world is an instance of monopolistic action.

But I go further. I ask, what scientific or praxeological *sense does it make to even speculate* about a motive for pricing that has no independent manifestation in human action? One that does not even have an independent *definition*, but which is rather tied symbiotically to competitive pricing, and the latter to it, in a never ending series of infinite regress. And I answer that it makes precious little sense.

In this criticism of Kirzner I seem to be supported by no less an authority on praxeology than Professor Ludwig Lachmann, who states: "We are not entitled to abstract from the springs of human action, the purposes sought by individuals and the plans in which they find their expression, by assuming their *modus operandi* to be known and therefore predictable."[20] If I understand this correctly, it means that the motives behind action, the motives that determine action, and are manifested in action, are unknowable to the praxeologist, an outside observer. Only *human action* can be known.

We can perhaps see this more clearly when we consider the logical status of envy.[21] Now envy, in the praxeological view, lacking a market manifestation, is completely without standing. *It cannot be established by any human action on* the market. Nor can it be disproven in any such manner. In *some* non-economical sense, it may be truly said to exist, but as far as praxeology is concerned, it must remain non-existent. I contend that the phenomenon of monopoly pricing occupies a similar logical category.

Kirzner also shows himself as incisive and discerning, and hence inconsistent with the stand he has taken on monopoly, on the issue of advertising. In a positively brilliant display of insight, Professor Kirzner demolishes the position of those who would distinguish between motivational and informational advertising in all cases. Instead, "there is an aspect of advertising which, although clearly aimed at making the consumer 'better informed' about the advertised product, does *not* lend itself to an analytical treatment in which it is handled as a separate service which for one reason or another reason happens to be provided by the producer of the advertised product."[22]

In the terminology of the present argument, Professor Kirzner is asserting that informational and motivational advertising are (sometimes) bound up so closely together in *human action* that it makes little sense even to distinguish between them.[23] For Kirzner, except for the "polar cases of pure persuasion on the one hand and of the pure provision of information on the other,"[24] it is extremely difficult to draw the dividing line. No other explanation for his refusal to treat them in markedly different ways seems plausible — other than that insofar as *human action* is concerned, they are indistinguishable. But if this view of Kirzner's analysis is correct, one must wonder that he did not choose to apply it in the case of monopoly.

Now let us consider a rather long passage taken from *Planning for Freedom*[25] by Ludwig Von Mises, and compare it with his previously quoted views on monopoly:

> A popular chain of reasoning runs this way: The entrepreneur earns profit not only on account of the fact that other people were less successful than he in anticipating correctly the future state of the market. He himself contributed to the emergence of profit by not producing more of the article concerned; but for intentional restriction of output on his part, the supply of this article would have been so ample that the price would have dropped to a point at which no surplus of proceeds over costs of production expended would have emerged. This reasoning is at the bottom of the spurious doctrines of imperfect and monopolistic competition. It was resorted to a short time ago by the American Administration when it blamed the enterprises of the steel industry for the fact that the steel production capacity of the United States was not greater than it really was.
>
> Certainly those engaged in the production of steel are not responsible for the fact that other people did not likewise enter this field of production. The reproach on the part of the authorities would have been sensible if they had conferred on the existing steel corporations the monopoly of steel production. But in the absence of such a privilege, the reprimand given to the operating mills is not more justified than it would be to censure the nation's poets and musicians for the fact that there are not more and better poets and musicians. If somebody is to blame for the fact that the number of people who joined the voluntary civilian defense organization is not larger, then it is not those who have already joined but only those who have not.
>
> That the production of a commodity p is not larger than it really is, is due to the fact that the complementary factors of production required for an expansion were employed for the production of other commodities. To speak of an insufficiency of the supply of p is empty rhetoric if it does not indicate the various products m which were produced in too large

> quantities with the effect that their production appears now, i.e. after the event, as a waste of scarce factors of production. We may assume that the entrepreneurs who instead of producing additional quantities of *p* turned to the production of excessive amounts of *m* and consequently suffered losses, did not intentionally make their mistake.
>
> Neither did the producers of *p* intentionally restrict the production of *p*. Every entrepreneur's capital is limited; he employs it for those projects which, he expects, will, by filling the most urgent demand of the public, yield the highest profit.
>
> An entrepreneur at whose disposal are 100 units of capital employs, for instance, 50 units for the production of *p* and 50 units for the production of *q*. If both lines are profitable, it is odd to blame him for not having employed more, e.g. 75 units, for the production of *p*. He could increase the production of *p* only by curtailing correspondingly the production of *q*. But with regard to *q* the same fault could be found by the grumblers. If one blames the entrepreneur for not having produced more *p*, one must blame him also for not having produced more *q*. This means: one blames the entrepreneur for the facts that there is a scarcity of the factors of production and that the earth is not a land of Cockaigne.
>
> Perhaps the grumbler will object on the ground that he considers *p* a vital commodity, much more important than *q*, and that therefore the production of *p* should be expanded and that of *q* restricted. If this is really the meaning of his criticism, he is at variance with the valuations of the consumers. He throws off his mask and shows his dictatorial aspirations. Production should not be directed by the wishes of the public but by his own despotic discretion.[25]

Now contrast this with the writings of a person who can only be called a "grumbler", who wrote the monopoly section of *Human Action*. To the Mises who wrote *Human Action*, and said that monopolistic restrictions are an infringement on the rights of the consumer, the Mises of *Planning for Freedom* might have replied that the *last* person to be blamed should be the so-called monopolist, who is at least producing *something*.

Is there any possibility of reconciling these two views in Mises? One might argue that in *HA* there is no specific *blame*, as such, laid at the door of the "monopolist," while in *PF*[26] Mises argues against blaming those who are at least producing something, for the so-called shortfall; and that, therefore, the former statement belongs to positive economics, while the latter is a part of the normative realm. The two statements would thus *not* be inconsistent, for if no "is" can imply an "ought" (the naturalistic fallacy *is* a fallacy), then no member of one universe of discourse can be inconsistent with any member of the other.

And this, it must be admitted, is true, as far as it goes, but it does not go far enough. It may be true that the moralistic parts of *PF* (don't blame the large manufacturer) cannot contradict the positive economics of *HA* (monopoly prices come about as a result of deliberate restrictions of trade), but it is quite incorrect to interpret *PF* as consisting *only* of ethical elements. Actually, *PF* is composed of the positive as well as the normative, and it is the former part of *PF* which goes against the grain of *HA*.

The *PF* argument that contraverts the positive aspect of *HA* is that the demand that the manufacturer *not* cut back production in one of his plants is tantamount to a demand for a non-scarcity economy. As long as the earth is not "a land of Cockaigne", a demand that a manufacturer *not* cut back on production, i.e. that he produce more than he chooses to, is equivalent to a demand that he produce *less* of something else. This demand of HA, then, in calling for more of the so-called monopolized product, and *therefore* less of some other, "is at variance with the valuations of the consumers", and based on "dictatorial aspirations". *HA*'s advice, that more of *p* (and less of *q*) be produced, is contrary to the evaluations of the consumers because the free market price (the one the free market monopolist is charging) is the *only possible* independent criterion of market desires. As has been shown above, there is no other independently conceived "competitive" price.

Let me say, in closing, that I regard Ludwig von Mises as one of the most creative minds in the history of economic thought. And perhaps, were he still with us today, he might be able to reconcile his seemingly inconsistent statements on monopoly. But, in his absence, it falls upon those of us with lesser talents to carry on. Let us interpret these remarks, then, not as a criticism of a genius, but as a humble attempt to follow along the path that he blazed.

NOTES

1. Ludwig Von Mises, *Human Action* (New Haven: Yale University Press, 1963) p. 359: "Monopoly prices are only prices at which it is more advantageous for the monopolist to *restrict* the total amount to be sold than to expand his sales to the limit which a competitive market would allow. They are the result of a deliberate design tending toward a restriction of trade." And again: "The only question relevant in the study of the determination of prices is whether these [product] differences can be used by the seller for a scheme of deliberate restriction of supply for the sake of increasing his total net proceeds."

   On p. 357, in describing competitive prices, in contrast to monopoly prices: "No part of a supply available is permanently withheld from the market."
2. Israel M. Kirzner, *Competition and Entrepreneurship* (Chicago: University of Chicago Press, 1973), p. 110: "The owner of the monopolized resource has withheld the use of some of his stock from the market, forcing up the price the market must pay for the smaller remaining quantity."

   There are some marginal differences in definition between Mises and Kirzner, but I shall concern myself only with what they hold in common: that withholding resources in order to raise prices is a necessary characteristic of the monopolist.
3. Murray N. Rothbard, *Man, Economy, and State*, Vol. II (Princeton: Van Nostrand, 1962), p. 591: "Monopoly is a grant of special privilege by the State, reserving a certain area of production to one particular individual or group."
4. *Man, Economy and State*, p. 606.
5. *Ibid.*, p. 613
6. *Ibid.*, p. 607
7. *Human Action*, p. 360.
8. *Ibid.*, p. 358.
9. *Ibid.*, p. 371.
10. *Competition and Entrepreneurship*, p. 111.
11. My italics in the latter two cases in this quote. Israel Krizner, "Discussion of Professor D. T. Armentano, 'A critique of neo-classical and Austrian monopoly theory'" (unpublished manuscript), p. 3.

    Consider also, in this regard, Professor Kirzner's statement on p. 9 of this manuscript: "Of course, *given the monopoly ownership of the resource*, the consumer who buys has declared himself better off buying at the 'high' monopoly price than he would be were he prevented from being able to buy at all. But there is nonetheless, an important sense in which the monopoly price is too high. The price is not sufficiently low to permit all the available stock of the resource to be put into consumer use. ["Available stock", incidentally, is a term which, in the present context, means the stock remaining after the sellers have put aside any quantities they choose to hold for purely speculative purposes.] This would tend *not* to happen in the absence of monopoly ownership."

    So Professor Kirzner does see a scope for another explanation for "withholding" besides "monopolizing": speculation. But he holds fast in his determination to deny a scope for consumption.
12. D. T. Armentano, "Competition and monopoly theory: some Austrian perspectives" (Unpublished manuscript, prepared for the Symposium on Austrian Economics at the University of Hartford, June 1975), pp. 18–19.
13. *Human Action*, p. 95. See also Ludwig von Mises, *Grundprobleme der Nationalokonomie* (Vienna, 1933), p. 140, on the question of inferring values from behavior, and from behavior alone: "People forgot that we can only know the need from the behavior, and that consequently the concept of behavior which does not correspond to the needs is nonsensical." (Cited in Alan R. Sweezy, "Review of the Collected Works of Carl Menger," *Quarterly Journal of Economics* (August, 1936), p. 726).
14. *Human Action*, p. 95. The present author has added all the material within parentheses to this quote.
15. *Ibid.*, p. 96. The present author has added "(motives)" to the quote.
16. *Competition and Entrepreneurship*, p. 103.
17. Israel M. Kirzner, "Economics and error" (Unpublished manuscript, prepared for Symposium on Austrian Economics, Windsor Castle, August 1976).
18. *Ibid.*, p. 5.
19. See Ref. 2 in the present paper.
20. Ludwig M. Lachmann, *Macro-economic Thinking and the Market Economy* (London: the Institute of Economic Affairs, 1973), p. 14.
21. Murray N. Rothbard, *Power and Market* (Menlo Park, California: Institute for Humane Studies, 1970), pp. 14–15.
22. *Competition and Entrepreneurship*, pp. 155–156.
23. For an even more extreme statement of this view, but one which was inspired by Kirzner's own treatment, see Walter Block, *Defending the Undefendable* (New York: Fleet Press, 1976), pp. 68–79: "Is it *possible* to ban motivational advertising while allowing informational advertising? No. Information can be presented well or badly, but it must be 'packaged' or 'presented' in some way . . . (but) . . . clearly there is no way to separate the 'package' from what it contains. There is no way to present 'pure' information" (pp. 75–76).
24. *Competition and Entrepreneurship*, p. 160.
25. Ludwig von Mises, *Planning for Freedom* (South Holland, Illinois: Libertarian Press, 1969), pp. 114–115.
26. "*PF*" and "*HA*" refer only to the relevant statements on monopoly I have quoted from these works, *"Planning for Freedom"* and *"Human Action"*.