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### **Public or Private Monopoly?**

John Quiggin\*

Almost all aspects of the current policy debate over grain handling, transport and marketing turn on the problem of monopoly. The essential problem is that, in the presence of extensive scale economies, the perfectly competitive market of the textbooks cannot be sustained. Policy makers are left with three broad alternatives, each of which seems more notable for its disadvantages than its advantages. The basic choices are public monopoly, regulation and unregulated private monopoly.

Students of long waves might profit from an analysis of the tides of opinion in this area. During the post-war period, public monopoly and regulation have been the preferred options. This largely reflects a reaction against the perceived failures of the market during the Depression, failures which continue to influence thinking about agricultural marketing policy in particular. The appeal of these approaches was enhanced by theoretical developments which suggested that they could achieve something close to the social welfare optimum associated with perfectly competitive markets. Much of the work of economists in this area involved attempts to design pricing structures which would mimic the operations of competitive markets for the products of public monopolies and institutions to enforce competition among regulated firms. It is doubtful, however, whether such considerations have dominated the minds of policy makers.

Public monopolies such as the Australian Wheat Board, State rail authorities and grain handling authorities dominate the whole process of grain marketing. In other rural industries, such as wool, a regulatory-interventionist model has been preferred. Although most of the marketing process is dominated by a small number of private firms, Trade Practices legislation has been used in an attempt to promote competition, and the Australian Wool Corporation has sought to give growers market power comparable to or greater than that of other market participants.

Long experience with these approaches has bred considerable disenchantment. Theories of rent-seeking, regulation-induced slackness and X-inefficiency have led to the suggestion that publicly owned or regulated enterprises are likely to perform much worse than was suggested by earlier, more optimistic, models. On the other side of the coin, the "uprising in the economics of industrial organisation" associated with the notion of contestable monopoly has led to a more benign view of private monopoly in general. It has been suggested that potential competition will succeed, where theorists of public enterprise have failed, in forcing a monopolist to behave like a perfect competitor.

This has been reflected, for example, in a marked weakening of Trade Practices policy, to the point where duopoly at least is considered a perfectly acceptable outcome. Admittedly the insistence on at least one competitor indicates that monopoly still has some distance to go before it becomes completely respectable. Nevertheless, if duopoly is encouraged, the ultimate emergence of monopolies cannot be avoided. Somewhat to the chagrin of its instigators, the "uprising"

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associated with the idea of contestable monopoly has led to the view that this is not really a bad thing.

In my view, all of this is an example of the “grass is always greener” fallacy, identified by Demsetz. The perfectly contestable monopoly is as extreme a special case as the perfectly altruistic manager of a public authority, and about as relevant as a guide to policy. The concepts of rent-seeking apply to the struggle to establish and maintain a monopoly through market strategies such as long-term contracts and differential pricing just as much as to attempts to secure favorable treatment from regulators. Similarly, concepts such as X-inefficiency apply to the behaviour of incumbent monopolies and will imply costs larger than those found in Harberger triangles. Given sufficient experience of private monopolies or near-monopolies, the appeal of regulation and public ownership will begin to reassert itself.