

HOW MUCH DO MONOPOLIES COST US?

G. V. Lebedev

Vanguard, Ltd.

Prepared for “A Liberal Agenda for the New Century: A Global Perspective,” a Conference cosponsored by the Cato Institute, the Institute of Economic Analysis and the Russian Union of Industrialists and Entrepreneurs, April 8-9, 2004, Moscow, Russian Federation.

Resume

The notion that a monopoly is an entity enjoying powers to manipulate prices in a certain “market” by virtue of its share in it is absurd. If it were so, any individual or corporation would be a “monopolist” in some or other “market”. The only strict sense of the word “monopoly” is a government-conferred and government-backed privilege. National losses (costs) due to the existence of such government-conferred privileges (monopolies) will, at every particular moment, be higher in proportion to an increase in level of violence needed to support the monopoly. Moreover, such losses (costs) will grow over time in an avalanche-like manner, that is, the community will grow poorer in an avalanche-like manner. The strict definitions of the terms “privilege”, “violence”, “fundamental rights”, “community growing poorer” and others are given below, in the text of the report. National losses due to the existence of sector privileges of the so-called “natural monopolies” are relatively lower than those due to the central bank’s overwhelming money monopoly. A compromise option of lowering national losses (compared to total liquidation of the privilege) may be to lessen the violence produced by this privilege, for example, by means of total ban on the issue of new money. Patents and copyrights may serve as other instances of monopolist privileges (provided their protection extends beyond the protection of usual rights of ownership and contractual rights). At the heart of all such privileges (and all national losses) lies the government’s privilege to use law-approved and, for that reason, unpunishable violence, that is to say, the government’s privilege to violate fundamental human rights. Not only do all other privileges rely on this privilege, not only is this privilege comprehensive and overwhelming, not only is the scale of such violence enormous and, accordingly, enormous are national losses and impoverishment, the government’s privilege to use unpunishable violence differs drastically from all other government-conferred privileges in

its very essence. In an “ordinary” privilege (on gas production, electric power or even issue of money) all others are only forbidden to engage in a certain kind of activity, which many of them would do if the privilege were removed. Now, the government’s privilege on violence gives permission to do what would have amounted to a crime should the privilege be lifted (and often is seen as a crime by the public, irrespective of whether it is set down in the laws or not). It is this privilege of the government that gives it “right” to slavery, plundering and other forms of violation of fundamental human rights. Therefore, this privilege leads not only to national impoverishment, but also to erosion of the very foundations of human co-operation by undermining principles of morality and propriety, dividing people into classes, leading to repression and wars. The government ought to protect fundamental human rights (by resorting to use of force as well), but it neither can nor should violate these rights whatever circumstance there may be and whatever aims it may pursue. In so much as the government protects fundamental human rights, it promotes national development and prosperity. In so much as the government violates, or protects the violation of, fundamental human rights, it acts criminally and contributes to social stagnation, decay and disruption.

Globally, a liberal program for the new century may be summed up in a single sentence:

The government’s monopoly (privilege) on violence, that is, violation of man’s liberty, rights of ownership and contractual rights should be abolished.

i. Pruning

I have to begin with a few obvious assertions, which are well known to most of the audience, but remain as exceedingly topical and burning as ever before.

i. 1. Monopoly as a share of sales in a market and possibility of price enforcement

The word “monopoly” today usually brings to mind a situation in which a producer or a seller has too big a share of a “market”, which gives him powers to “manipulate” prices in that “market”.

This definition, however, appears subjective and not rigorous, as anything you like may be called a “market”. GAZPROM is a monopolist in the “gas market”, and UES in the “electricity generation and distribution market”; but neither is so in the “heating market” (which, besides gas and electric power, should include oil, firewood, hot water supply, and even fur coats and blankets). If we want to make out whether or not GAZPROM is really a monopolist — which of the “markets” (gas, heating, electric power or anything else) must we take into consideration? After all, a producer of any commodities or services is a monopolist in the “market” of those commodities or services. A hired worker is a monopolist so far as he sells his own work. Marriott Grand Hotel is a monopolist in lending its rooms for this or any other conference.

In other words, either monopolies in the sense we have defined do not exist at all, or any individual or any organisation whatsoever may be called a monopoly in a certain “market”. This definition of monopoly is loose and blurred, and it is so because it serves as a subterfuge, the only purpose of which is to justify the government’s intervention and violation of rights of ownership.

i. 2. Why does “single” necessarily imply “bad”?

The notion “monopoly”, far from being ill-defined and so lending itself to justifying anything you like, leads naturally to the question: Why indeed is the condition of a single seller so bad? Any seller, if you come to think of it, is unique. It is a buyer, when he has made up his mind to buy something, acts as a monopolist. More so. Even if I don’t like the price of electric

power, I am at liberty to light my rooms with a candle, or buy a cell-powered torch, or get up at sunrise and go to bed at sunset, or move to any other place where I would be better off.

To try and make the point clearer, let us consider a grotesque case. Let us suppose that in the “market of wheels” there is fierce competition between producers of triangular, square, hexagonal and circular wheels. Now let us suppose that buyers, increasingly aware of advantages of circular wheels, cease to purchase square wheels and, some time after, even hexagonal wheels. The result is clear: the producer of circular wheels will before long enjoy a monopoly in the “market of wheels”. (For simplicity’s sake let us assume that the other companies are unable to speed up production of circular wheels, say, because the amount of investment to start it would be too big or because the circular wheel form is patented. It is quite obvious, too, that any efforts to “boost competition and curb monopoly” by getting across the point that square-shaped wheels may be as efficient as circular ones would be sheer madness (even though, as a spin-off, both employees of the anti-monopoly agencies and workers of the producers of square-shaped wheels might get some more orders and even some other perks.). As real understanding comes home, “campaigning against monopoly” will inevitably give way to “regulation”. Circular Wheels Ltd will be recognised a natural monopoly (by virtue of the natural better performance of this form of wheel) and, on the strength of this, governmental price regulation will be required. Otherwise, this monopolist, taking advantage of its monopolist position, will hike up prices and will profiteer at the expense of consumers.

This argument may very well be applied to any seller. Thus, enjoying my monopolist right of ownership on my apartment, I may hike up the rent to benefit from the tenant. Coca Cola may hike up the prices of its drinks, as well as an employee may hike up the price of his work to feed on the employer. And so on. The usual counter-argument here amounts to this.

Apartments, drinks and labour are supposed to be competitive markets. So that anyone unsatisfied may very well move into another apartment or hire another worker. But this brings us back to the initial questions: What kind of “market” should be considered? Which of the “markets does anyone of us have in their minds? Some workers differ from others in skills and performance (especially in our high-tech age) just as gas-fired boilers differ from crude-oil-fired boilers or candles from electric lamps.

At the core of demands “to curb monopolist prices” lies a banal wish to live at the expense of others by compelling the seller to trade on terms worse for him (than when there is no coercion). On the other hand, the governmental agencies of regulation, once set up, may likewise be used by a “monopolist” to increase prices and force consumers to buy. Whether applied to a seller or to a buyer, however, coercion violates the first and foremost principle of the market — the principle of voluntary (and hence mutually beneficial) exchange. This means that any anti-monopoly law or any governmental regulation of monopolies in fact amounts to re-installing one or other form of centralized planning in the place of free market. Behind the crash program to create a competitive market is, in effect, use of force and destruction of market as such. History shows that the target of “building a competitive market economy and democracy” as a justification of unpunishable use of violence has turned out to be as suitable or even more so as the target of “building communist” or any other “bright” future.

i. 3. “Natural” monopolies

The so-called “natural” monopolies are given special status in the anti-monopoly theories. By virtue of their “natural” character, it is claimed, they cannot or need not be liquidated. They should, therefore, be “regulated”. For example, pipeline transportation is said to be a “natural” monopoly because, presumably, no other pipeline could be laid when one

pipeline (say, a gap pipeline) is already there. This is utterly absurd. If, let us suppose, no pipeline at all had been laid, then this might have given rise to doubt whether pipelining was in principle possible. Now, if someone has already laid a first pipeline, there cannot be any doubt in the least that a second pipeline may be laid too. And possibly at a lower cost than the first one. But even if we presume that no second pipeline will ever be laid for some economic reasons, it is absolutely unreasonable why the laying of a second pipeline should be *forbidden* under law. That interdicts to this effect do exist in the laws shows that the legislator (or someone who lobbies the law) *fears* that a second pipeline might somehow be laid. When the government says that “we cannot allow the oil companies to build their own pipelines because pipeline transportation is the government’s natural monopoly”, it, in effect, protects its own privilege, while the theory of “natural” monopolies is referred to here as nothing but a flimsy disguise.

Finally, in the anti-monopoly theories, cause and effect are often reversed (the cart is put before the horse). As long as prices are regulated by the government, a second pipeline is really unlikely to appear even where it could have appeared if there had been no regulation. But the fact that no competitive pipelines appear is the effect and not the cause of governmental regulation. Incidentally, if a second pipeline does not appear even in the absence of violence or regulation, this means that prices have not been hooked up and all goes well.

i. 4. Monopoly as a government-conferred privilege

With the above in view, I shall hereinafter use the term “monopoly” in its initial sense — as *government-conferred privilege* to permit one particular entity to do something and forbid the rest to do it. It is precisely in this sense “monopoly” was largely and solely used until the beginning of the 20th century. As an example of using it exactly in this sense we may refer to a

patent on the manufacturing of circular wheels (by virtue of which the government will forbid all other producers to put out circular-shaped wheels).

i. 5. Costs

By “costs” here we mean any costs, damages, burdens. The inside costs of any particular company (say, GAZPROM or UES) do not concern anybody outside. We as citizens (and especially so far as this applies to the theme of our conference) should first of all be concerned with costs incurred by a community, or national losses, connected with the existence and protection of the privileges of these companies. It is highly important to differentiate between privileges of monopolist companies and between companies themselves. The phrase “campaigning against poverty” no one will take as a call to extermination of the poor. But the expression “campaigning against monopolies” usually implies either forceful liquidation or dismemberment of particular companies. Action of this kind would do nothing but harm. GAZPROM, UES, CENTRAL BANK and other “monopolist companies” offer us services and work for the good of the community. The community incur costs and losses not because such companies exist and not because they are too big, but because these companies enjoy privilege or monopoly in the strict sense of the word. There is no reason whatever to forcibly divide them, or restructure them, or in any other way disrupt their well-managed functioning. To do away with monopolies (and with all the losses of the community connected with their existence) it is only necessary to remove the law-approved *privileges* for such companies.

So, the theme of my report can be worded more to the point, namely:

“National losses (costs) connected with the existence of government-conferred privileges (monopolies)”

Preamble

A privilege (monopoly) means a set of rights enjoyable by one entity and a set of obligations liable to the other entities, as established by the legislature (the government), but not derived from rights of ownership and/or from any obligations voluntarily undertaken under contract by the parties concerned. In other words, these rights and obligations are invented ones and they exist only by reason of legislature and governmental enforcement. To avoid misunderstanding, however, I have to spend some time defining the words I use.

1. Rights and violence

Anything people in a community do between one another they do either voluntarily (when no one uses force against another or threatens to do so) or under violence (when at least one of the parties uses force or threatens to do so). Violence, in turn, may take the shape of use of force (involving violation of anyone's rights, e.g. robbery) or the shape of protection against violence (involving protection of anyone's rights, e.g. self-defence or detention of an offender). In normal circumstances, violence is usually considered as crime, and protection against violence as normal, morally acceptable.

It is usually easy to determine whether interaction is voluntary or not; but in order to see which is violence and which is protection of one's rights, it is necessary to understand who enjoys what rights. Is the killing of a robber an act of violence or an act of protection of one's rights? Is going on strike an act of violence or an act of protection of the workers' rights? Or — with monopolies once again — does regulation of electric power tariff amount to use of violence towards the electric power distribution company (UES) and power consumers as well, or does it

amount to protection of the consumers' rights (or the rights of UES)? To answer these questions we must make out what the notion "right" is all about.

The word "right" today is almost always used as synonymous of "what is set down in the law". Yet there is much more to it than that. We now realize that the slavery laws (in the times when slavery was accepted as lawful trade) violated basic (or what Locke called natural) human rights. We call some of today's laws "predatory" (true, implying not the law-approved violation we have got used to, but the scale of the predatory effect it produces). The very fact of existence of the World Declaration of Human Rights (irrespective of its content) reminds us that there are some human rights seen as prevailing over the texts of the laws of any country. We qualify the mass purges and repression under Stalin as criminal irrespective of what the laws of that time said and how correctly the then court proceedings stuck to them.

We cannot, then, qualify just "what is set down in the laws" as "rights". The texts of laws and law-approved "rights" and "obligations", besides protecting basic (fundamental, natural) human rights, may sometimes violate such rights and protect and justify violence.

2. Fundamental rights

Now what are "fundamental" rights? Have they some content different from what some or other people think about them?

We may try to find out what different legal (and religious) systems of different times and nations had and have in common. In doing so we shall see that the most fundamental human rights over the millennia have been right of ownership and contract rights, i.e. the rights to insist the other party to the contract to observe and fulfil the obligations it has undertaken *voluntarily*;

the word “contract” here being taken to mean any (including by word of mouth) voluntary agreement between parties (“we agree to do so and so”).

We may try to trace back to what moral principles had given rise to some or other rights of man, and in doing so we shall come to Locke’s “natural rights”, that is to say, contractual rights and rights of ownership (based on one’s right to own one’s body, one’s capabilities and one’s work).

We may examine how the laws in our days define rights of individuals in those relationships in which the government takes no part whatsoever (not acting yet as a part concerned). In other words, we may examine norms of private law. In doing so we shall see that fundamental private rights are right of ownership, contractual rights and personal immunity (which Locke called man’s right of ownership of oneself). In defining all other — social, election, etc. — “rights”, the government acts as a party concerned, and for this reason rules of law of this kind cannot be considered unbiased.

Finally, from the point of view of pure logic, any social interaction is an interaction between individuals (even if they act as representatives of any group or organization). For any individual, the community consists of the individual itself and the rest of individuals in that community. All an individual can do himself with any things (without infringing another’s rights) is covered by the notion of rights of ownership. Any claim to others as regards anything is either a matter of contractual rights, or constitutes an act of arbitrary unilateral violence. So fundamentals right are rights of ownership and contractual rights. No other fundamental rights at all can exist.

From the above-said it follows that the fundamental rights are rights of ownership (including personal immunity) and contractual rights. Accordingly, man’s fundamental

obligations are: do not infringe another's rights of ownership and fulfil obligations voluntarily undertaken. Finally, if we concentrate our attention not on the community as a whole, but on a single individual, and if we consider individuals as enjoying equal rights (in the sense that all individuals share the same fundamental rights and obligations), then we can give the following definition of fundamental rights:

Fundamental human rights are liberty, rights of ownership and contractual rights.

Now whereas rights of ownership and contractual rights are really human rights, the word "liberty" implies that an individual has no *obligations* before anyone else, except before fundamental rights. If an individual must not infringe another's rights of ownership and must observe his or her obligations under contract, the individual's obligations are thereby exhausted. Liberty implies equal rights, in the sense that other individuals have no other right except fundamental ones.

3. Violence and liberty

Violence, in the strict sense of the word, is any violation of the fundamental rights of any individual. Violence is the exact antonym to the notion "fundamental rights".

The term "liberty" may now be re-defined thus: "Liberty is and only is *freedom from violence*, that is, absence of violation of fundamental human rights." This strict definition of civil liberty should not be confused with the household and any other senses of the word "freedom". Liberty in this strict sense does not mean "anything-goes freedom". Detention of an offender, for instance, does not mean limitation of his civil liberty because it may be an act of protection of the fundamental rights of the victim or an action of safeguarding against violence, and not an act of violence. Anyone's rights of ownership do not in the least limit another's

liberty (even though they may limit many of his acts, non-violent or not infringing another's rights). Enforcement of anyone to observe or fulfil obligations voluntarily undertaken does not amount to violence and, therefore, does not limit anyone's liberty. And so on.

Here and hereinafter, then, "liberty" is synonymous with protection of fundamental rights and "violence" synonymous with violation of fundamental rights.

4. Violence and the government

Violence in modern communities generally takes two main forms:

- 1) criminal (unlawful) violence, e.g. murder, pillage, robbery;
- 2) government-approved (lawful) violence, e.g. enforced military service, enforced taxation, monopolist privileges and so on.

In the former cases, violence itself is qualified as a crime; in the latter, any attempt to resist or "evade" violence will be considered criminal. Accordingly, in the former cases, the government prosecutes acts of violence to protect fundamental human rights; in the latter, on the contrary, the government resorts to violence, thus violating fundamental human rights, and prosecutes and punishes attempts of protection against violence. When we argue whether the government's activity should be limited only to protective functions or the government should also solve certain social problems, regulate the economy and so on, we, in effect, argue about whether the government should only protect fundamental rights or it may (or should) violate these rights too. We shall return to this question below.

5. Privileges (monopolies)

At this point we can once again refer to the definition of a monopoly given in the preamble, with its constituent words now more meaningful. A privilege (monopoly) is a form of violence and violation of fundamental human rights by the government by granting one of its subjects specific rights (and imposing on the others corresponding obligations) under the law which lie outside the domain of fundamental rights and obligations, that is, rights of ownership and obligations undertaken by parties to a contract voluntarily.

Any privilege or any monopoly is a form of violence.

6. Wealth of nation

The theme under discussion is national losses (costs) incurred because of the existence of privileges (monopolies). So the notions of fundamental rights, violence and liberty are only needed for us to the extent in which they are connected with wealth (or, conversely, losses) of nation. I have spent on it so much time in order to make the conclusion we are coming to, namely:

that losses of nation are proportionally as high as level of violence in the community and that

any decrease in violence leads to a rise in wealth and prosperity of the community and any

intensification of violation leads to losses and relative impoverishment of the community

comprehensible and rigorous, perhaps more like a theorem in mathematics than a private opinion, which may be understood arbitrarily.

Now that we have defined the notion “violence”, I think it would be proper to discuss the notion “wealth”.

Wealth of a community is usually referred to as a stock of goods accumulated in the community by a given moment. A water reservoir may be taken as a good metaphor at point. All newly produced goods are assumed to flow in through a set of inlet pipes, whereas all goods consumed, broken, used-up or otherwise made useless flow out through a set of outlet pipes. As far as this metaphor goes, the current level of water accumulated in the reservoir will stand for “wealth of a community”, the rate of outflow for “level of consumption” or “living standards”, and the rate of inflow for “level of production”. In real life, it is true, there are no miraculous inlet pipes by which streams of goods and services come pouring in for us. Human beings themselves make or fail to make all goods in a community. Activity of individuals is the only source of wealth. This is obvious enough, and it would be awkward to mention it again but for one simple reason: this plain truth has been persistently neglected whenever justifying the need and benefit of the government’s intervention in the economy.

What are the factors on which level of wealth of a community and its rate of growth are dependant first and foremost? We shall consider two important factors — reserve of capital and level of violence in the community. But first let us define these two terms, so far as attention later on will be concentrated on increase of wealth or impoverishment of a community.

6.1. The term “as a result the community grows poorer”

What we are now going to do is to understand how privileges and other forms of violence influence wealth of the community and what *consequences* they may have. We must understand their *cause-and-effect relations* and not merely compare the two different conditions of the community.

To make my point clearer. Suppose Ivan let his house burn down, while Peter, in the meantime, has built two new ones. In this case we say, “as a result of Ivan’s behaviour the community has grown poorer”. It is true that if we simply count the total number of the houses (without going into the *causes* why some of them appear or disappear) we shall at once see that “as a matter of fact” the community has grown richer: there was one house, now there are two. The expression “as a result the community has grown poorer” refers to the influence that Ivan’s behaviour has had on the wealth of the community. The implication here is that if Ivan had not let his house burn down, the community would have been richer (there would have been three instead of two houses). In other words, we compare the level of wealth at the present moment with the level which would have been if Ivan had not let his house burn down (alternative analysis), and not the levels of wealth *before* and *after* Ivan’s action (historical analysis). The point is that change in the wealth of the community depends not only on what Ivan does, but also on what Peter and other individuals do and on a great many other factors, in short, on “all the inlet and outlet pipes of the reservoir”.

Here is another case in point. The phrase “in the 20th century governmental control over all areas of economic life had enhanced to an unprecedented level and there was a large-scale limitation of fundamental human rights, which had resulted in impoverishment of the community, fall of moral standards and disruption of social co-operation” should be seen as the statement that some actions had had certain *influence*. This phrase implies that if the actions referred to had not taken place, the community would have been much more wealthier and more moral. That most of the countries *had become* much richer during the 20th century does not contract this. Their wealth had grown *despite* the actions of the governments (but thanks to the

creative activity of the public) — much in the same way as the number of houses has grown despite Ivan’s behaviour (thanks to Peter’s building work).

Accordingly, the phrase “any reduction in violence leads to increase in the wealth and prosperity of the community, just as any enhancement in violence leads to losses and relative impoverishment of the community” likewise refers only to cause-and-effect relations, but says nothing about the absolute level of wealth of one or other community or the growth or fall of this wealth over time.

6. 2. Role of capital in the growth of wealth of a community

The factors at work for production of new goods normally include work, natural resources (everything that exists independent from man’s activity) and capital (all goods that individuals have created, including knowledge and technology). “Capital” at each given moment is all wealth of a community minus its natural resources.

It is capital that determines, first and foremost, the rate of production of new goods, i.e. efficiency of work. Indeed, natural resources are what they are and, by definition, independent from man’s activity (even though access to natural resources may depend on capital). An individual’s work, time and powers are fixed quantities. But an individual’s efficiency and indeed the opportunity for producing new goods depend on capital directly. Efficiency may change enormously, a dozen times, a hundred times or even a hundred thousand times, depending on whether a fellow will dig with bare hands (without using any capital) or he will do it with a spade (a sort of capital) or he will run an excavator (another sort of capital). No one can make a jet plane or a computer without using components or tools (that is, without capital), no matter how many efforts or natural resources will be put in.

So, the rate of production of new goods is limited by the reserve of already accumulated real (non-monetary) capital. If not a single excavator has been accumulated, people will have to use spades to dig. If there is no single spade yet to go by, they will do with a stick or barehanded. This means there can be no miracle as far as growth of wealth is concerned. True, this refers to a given moment of time, and it is not to be taken to mean that growth of wealth of a community does not depend on anything else at all. People usually take into consideration all sorts of outside things as they act or work. They do so both when they decide what kind of capital and how much they are to use, and what exactly and at what moment they are to do. Since size of accumulated capital determines rate of production of new wealth,

favourable conditions in which to create and accumulate capital are needed in the first place to ensure the highest possible growth of wealth of a community.

Whether the existent capital will be used for producing new goods or it will be “squandered” or otherwise wasted will also depend on the circumstances in which people take decisions.

6.3. Violence and national wealth

One of the greatest discoveries the economists have ever made (which, incidentally, common people have realized since times immemorial) is that any voluntary exchange is mutually profitable and helps to enlarge the wealth of all the parties involved in the exchange. If people agree to exchange, voluntarily, without coercion, this means that each values what he gets more than what he gives. Any voluntary exchange and any voluntary co-operation leave all the parties involved better off and not worse off.

Any act of violence (e.g. robbery) is committed against the will of the victim. A robber gets better off at the expense of a reduction in the wealth of the robbed. As long as some resources are spent on the performance of the act of robber itself, on the overwhelming of the victim's resistance and so on, the overall wealth becomes less and not simply gets re-distributed as a result of the robbery.

Voluntary exchange (just as voluntarily employment and work) leads to growth of wealth of a community.

An individual can enlarge his personal wealth either through non-violence actions (the commonest of which are work and trade) or through resorting to use of violence towards other individuals (e.g. robbery).

A group of individuals (e.g. the population of a country) can enlarge their group wealth either through voluntary interaction with one another or with other individual (work and trade) or through resorting to violence towards other people (raiding or plundering the neighbouring tribes or invading other countries). It is very important to point out that plundering *inside* a group (or inside a country) does not enlarge the overall wealth of the group. Plundering or robbing a member of one's group, therefore, has always been qualified as a criminal offence and liable to ruthless punishment in all communities (even within gangs of criminals).

An individual or a group of individuals can enlarge their wealth through violence (by plundering other people). A country can enlarge its wealth through plundering or invading *other countries* (but not their own citizens). Now, mankind as a whole cannot do so, because violence inside a group always lessens the wealth of the group. The only option for the whole population of Earth to be better off is through work and trade, through voluntary co-operation.

Incidentally, robbers, too, are well aware that overall wealth grows less because of robbing. That is why gangs compete with one another for “territory control”, trying not to let outsiders gain access to “their territory”. That is why the feudal landlords were at war with the highwaymen, and the kings with the feudal landlords. It may be said that it was precisely through concerted efforts to defend their subjects’ fundamental human rights against all *other* robbers and plunderers that the nation-states had arisen in Europe. The lower level of violence thus resulted had led to a growth in the wealth of nations and had given rise to the modern civilisation. Goods that common people produced through work and trade were now much larger than the whole lot they themselves and the remaining robbers could “scoop out of the reservoir”. It should be borne in mind, however, that wealth grew thanks to work and trade carried out by common people in the face of violence still done by the kings (the state).

6. 4. Violence and future wealth

Violence, far from reducing and re-distributing the existing wealth of a community, exercises much more far-reaching influence on the *future* wealth. If the risk is high that individuals may not be able to enjoy the results of their own efforts in full measure (because of possible criminal threats, high tax burden, lack of protection of rights of ownership and so on), then they will always take into consideration this risk when choosing between accumulation and consumption, between work and entertainment. The higher is the level of violence in a community, the larger number of people will prefer consumption to accumulation, leisure and entertainment to working. Accordingly, people would produce and accumulate fewer goods (than would have done if there had been no violence). As a result, the community grows poorer (in the sense referred to in 6.1).

Now, as long as the rate of production of new goods primarily depends on the size of capital accumulated in the community, a reduction in the accumulation of capital will lead to a reduction in the *rate* of production of new goods, which, in turn, will make the accumulation of capital go down *still further*, and so on. As a result, the community will *grow poorer avalanche-like* (in the sense referred to in 6.1). The future losses and reduction of the future wealth of a community will be many times higher the present-day losses (and will get increasingly higher as time goes on).

The same is true of the reversed process. A drastic reduction in violence (through better protection of fundamental human rights) will result in a similar *avalanche-like growth* of capital (growth both in wealth of the community and in rate of its production) — a process which some observers call “economic miracle”.

6.5. Wealth of nations: resume

Any reduction in the level of violence in a community leads to avalanche-like growth of wealth and prosperity of the community. Any enhancement of violence leads to avalanche-like losses and impoverishment (in the sense referred to in 6.1) of the community. Losses (costs) of the community enlarge in proportion to increase in the level of violence, and future losses may be many times in excess of the present losses.

With these premises to rely on, we can now directly deal with monopolies.

7. General conclusion relating to all monopolies

Any government-conferred privilege (monopoly) means violence and violation of fundamental human rights (see 5). Any violence leads to avalanche-like losses and

impoverishment of a community (see 6.5). Consequently, losses (costs) due to existence of monopolies mean avalanche-like impoverishment of the community. The more violence-prone and overwhelming is a monopoly and the higher the level of violence in general, the more avalanche-like will grow national losses (in the sense referred to in 6.1).

8. Sector monopolies

Examples of sector monopolies in Russia are: the monopoly of GAZPROM on gas transportation, the monopoly of UES on export of electric power and the monopoly of the air traffic control system on air traffic control services. There have been all too many arguments and studies to the effect that monopolies of this kind are responsible for slower rates of economic growth, slower advancement of science and technology and other losses of the community. All of them are well in accord with our general conclusion about all monopolies (see 7). Even “free and indiscriminate access to transport networks” may be seen as a kind of violence as applied to owners of transport networks, which, like any other violence, will add to avalanche-like impoverishment of the community.

Once again, it should be emphasised that neither existence as such of particular companies nor their size, nor even quality or prices of the services they offer are responsible for losses of a community (the latter being in fact the effects of them). The sole causes of such losses are: (1) existence of law-approved privileges, thus banning individuals and organizations to engage in some or other kinds of activity if they have no licences or other permits from the government’s authorities; and (2) existence of law-approved regulation of prices and/or other aspects of activity in the areas of the so-called “natural monopolies”. In short, the real cause is and only is the government’s violence.

It is not accidental that UES, a company which has taken initiative “to campaign against monopolism in the electric power sector”, has declared its willingness to divide itself and divide, merge and reorganise its affiliates; but, along with the government, is categorical against removal of any privileges in the electric power sector. For example, it is against private networks and power stations, even still under construction (that is, not in existence as yet), being given permission to sell their services outside the government’s regulation and the wholesale electric power market. “Campaigning against monopolies” is still perceived as demand to divide certain monopolist companies and not as a campaign against privileges to reduce the overall level of violence in a community.

9. The central bank’s money monopoly

National losses from “sector monopolies”, even taken all together, seem by far much lower than losses from overwhelming monopolies such as the money monopoly of the central bank, which has effects on all sectors of the economy and on all exchange in general.

The central bank’s is a very complicated and ramified monopoly. It forbids private persons and private banks to issue their own money; it demands that the rouble be accepted obligatorily as legal tender; it forbids foreign residents to settle accounts between one another in foreign currency; it demands that accounting be kept in national currency, it has the privilege to issue new banknotes, etc.

National losses from the existence of this monopoly and the possibilities of its full abolishment are discussed in detail in M.Rothbard’s “What Has Government Done to Our

Money?”, which was first published as early as in 1964, but has become even more topical since then.¹

The only point I should like to draw your attention to is that the privilege of issue of money can be removed, with the monopoly on “the only legal tender” left intact. Of course, it is a compromise. Needless to say, it would be better to remove all privileges of the central bank (which would involve neither its liquidation nor cessation of its activities). Any proposal to that effect is, as yet, regarded as an act of extremism (as would have been a proposal to abolish Gosplan (the State Planning Agency) in the time of the USSR). Therefore, it would be more reasonable to discuss whether the central bank could get rid of some or other of its specific privileges, bearing in mind that any reduction in violence must lead to avalanche-like growth of national wealth. The gradual lessening of currency control restrictions now in evidence may be seen as a little step in the right direction. A next step, simple and understandable, towards lessening the violence generated by the central bank’s privileges would be to remove its privilege of issue of paper money.

9. 1. Case study: Banning issue of paper money

In a free banking system, banks may issue their own banking receipts without violating anyone’s fundamental rights. But where money banknotes themselves are maintained forcibly, where people are compelled by the government to use the money thus maintained, where it is “the only legal tender that cannot be refused all over the territory of the state”, issue of new money is an act of violence and an offence of the same grave kind as counterfeiting.

¹ M.Rothbard "What Has Government Done to Our Money?", The Ludwig von Mises Institute, Auburn University, Auburn, Alabama 36832, 1980. The Russian translation was put out in 2002: М.Ротбард "Государство и деньги. Как государство завладело денежной системой общества", Москва, Социум, 2002.

Money is a universal medium of exchange. Modern paper money is exclusively a medium of exchange having no other value. People use money to exchange their work or their property for other real goods and services (not money) they need. For an individual to get something from another individual without using violence, it is necessary for him or her to be useful for that other individual in some or other way. Money makes things simpler: an individual, having been paid in money for something he has done for one customer, can use the money to buy the goods and services he needs from other customers. Still, money is nothing but an intermediate medium of exchange. If we come to think of it, an individual, if he wants to get something from another without using violence, should himself be useful for that individual or other individuals. This necessity to be useful for others for the sake of achieving one's own aims, or what Adam Smith calls "the invisible hand", is the most important factor of market economy and social co-operation. At the heart of human co-operation lies voluntary exchange of real goods and services (not money). Money serves only as a medium of exchange.

Any counterfeiting offender, by printing banknotes "out of air", undermines the foundation of this co-operation because he gets real goods and services in exchange of the new notes he has printed without having done anything useful for others. The printing of new paper money is a kind of indirect robbery. Unlike an ordinary robber, a money counterfeiter "pollutes the air that all breathe". Roughly and simply, the purchasing power of money is the sum-total of real national wealth divided by the total quantity of money. Of course, "divided" not in the mathematical sense, but figuratively, as an image of cause-and-effect relation between the magnitudes. The issue of new paper money makes the purchasing power of the money already in circulation lower. Money-holders now can fewer real goods and services: in effect, they are robbed. Those goods and services which would have been enjoyed by those who have done

something useful to others if no new banknotes have been issued, will not be enjoyed by holders of new banknotes issued “out of air”. Instead of being a medium of exchange of real goods and services for real goods and services, money will now become a medium of exchange of “nothing” for real goods and services; in short, besides a medium of exchange, money will now serve as a means of robbery.

The central bank does the same by issuing new banknotes. It plunders all holders of money already in circulation. If the central bank uses new banknotes to buy the government’s debt receipts and the government spends these new banknotes, the situation is, in effect, the same when a counterfeiter lends the notes he has printed to the boss of the gang who will spend them as he likes. The very fact of issue of new money is an act of robber. It doesn’t matter how and on what spends it, through what instruments or in what ways of formalization. If “control of supply of money” really made any sense other than robbery, then, in certain circumstances (e.g. when supply of money is insufficient) counterfeiting should have been deemed useful for the community. But we realize very well that counterfeiting is a criminal offence irrespective of the size and condition of supply of money.

Now what would happen if the central bank were forbidden, just as all private individuals are, to issue new notes?

First, “money made out of air” would disappear. Absolutely all money would now be in possession of some or other individuals or organizations. The only way (leaving violence out of court) to get money would be by doing something useful for those who hold money, buying them commodities or rendering services (in the form of work as well). An individual’s wealth would then be the right yardstick to see whether and in what measure he or she is useful for others and the community as a whole.

Secondly, with growth of the real wealth of the community, the purchasing power of money would go up and prices down. Over time, prices might be reckoned, say, in “nanoroubles” or “milli-kopecks”. That would not create any difficulties because banning the issue of new money does not mean banning change or replacement of worn notes and coins. Advances in electronic payment would reduce this almost to nil. The purchasing power of money would grow roughly in proportion to overall growth of real wealth of the community. In particular, usual store of money (e.g. at home without investing) might then cope with the problem of risk-free pension accumulation. Neither pension funds, nor their control, nor their investment would be needed any longer.

Of course, prices of services and work, measured in money, would fall. With population growth, the average size of an individual’s wealth, measured in money, would fall as well. Instead, real incomes and real wealth of people would rise rapidly.

The central bank’s privilege to issue money abolished, there would no longer be large-scale violence or robbery connected with the use of newly issued money. This means that wealth of the community would now grow avalanche-like.

9. 2. Saving and destruction of paper money

It should be noted that if an individual would simply destroy the money paid to him for services rendered (or reduce the quantity of money in circulation by any other way) it might be described as an act of heroic self-sacrifice for the welfare of the community. Refusing to exchange the money paid for having produced *real goods for others* to get *real goods for himself* is in fact an act of altruism par excellence.

Destruction of money would lead to growth of purchasing power of money, i.e. growth of real wealth of all other holders of money thanks to someone's refusal of real goods. Saving of money (to be spent at a later date) would produce the same, though temporary effect, i.e. it amounts to refusal to get real goods now while reserving the right to get them in future.

It should likewise be noted that if, as a result of some altruism-generating inoculation, everyone started to care only about others, totally ignoring their own needs, there would have been no production at all (because of total lack of self-interest) and the human race would have ceased to exist. Altruism, therefore, is valuable as long as it is rare.

10. Non-material “monopolies” (patents and copyrights)

Patents and copyrights in the modern world are non-material monopolies unto themselves. Surely, an author may bind the publisher with any obligations under contract (or even refuse to submit the manuscript at all). A publisher may refuse to supply books to a bookshop which has not undertaken some or other obligations. Bookshops may refuse to sell to customers who have not undertaken obligations similar to the present-day “Copy Right” programme. The same applies to inventors, producers and consumers of new products. Damages due to failure to cope with obligations undertaken may be compensated. However, all these things are usual rights and obligations under contract, having nothing to do with specific authors' and patentholders' rights.

Specific authors' and patentholders' rights are not fundamental rights and, hence, amount to violence. When all people are forbidden to make an eye in a sewing-machine needle closer to the point of the needle than to the end opposite the point on the ground that it had occurred to someone somewhere to do so some time earlier and the invention of doing so had been patented,

this amounts to an arbitrary restriction of the rights of ownership of these people on their needles not liable under any contract. In short, this is an arbitrary unilateral act of violence.

To see what losses a community generally bears because of the existence of such privileges, let us imagine that patents had been granted on a great many common things and processes, such as the wheel, the screw, the bolt, the nail, the nut, the axe, the screw-driver, kindling a fire, writing a letter, using certain banknotes, making a speech or even “the process of consuming food by means of a human mouth”, and that no one had been entitled to make use of them before receiving permission from the patentholder.

11. The government’s monopoly on violence

There is one monopoly from which follow all the others. This is the government’s monopoly on use of violence (in the sense referred to in 3). Whereas an “ordinary” monopoly has a privilege to forbid others to engage in a particular kind of activity, the government’s privilege consists in its “right” to commit crimes without punishment, violate fundamental human rights, do things no individual can do.

When an “ordinary” monopoly be devoid of its privilege, things it could solely do may now be done by anyone. When the privilege on violate be abolished, any kind of activity done under this privilege would be qualified as criminal, in other words, would not be done any longer (after all, we don’t call robbery “a kind of activity”).

The government’s specific privilege on law-approved (and therefore unpunishable) violence tends to produce quite odious and dramatic effects. In addition to large-scale impoverishment of a community (in the sense referred to in 6.1), unpunishability makes violence increasingly widespread (the government apparatus sprawls, its functions multiply, more and

more new areas of activity are claimed in need of governmental regulation and so on). This, in turn, leads to further avalanche-like impoverishment (see 6.4). Finally, the human minds are confused and bewildered to tell what is right, proper and moral and what is wrong, immoral and criminal. Because any kind of violence, if committed on behalf of the government and justified by virtue of the government's interests, is no longer qualified as criminal. It is permissible, then, to make profits at the expense of others and go unpunished, or lobby the legislators for one or other bill and disguise such criminal activity as support of governmental interests. Compulsory military service, taxation, levying of customs duties, currency control, and restriction of turnover of farming lands — the list of law-approved violations of fundamental human rights could be continued.

It is precisely this specific feature of the present-time states that has spawned the political and lobbyist bustling now in evidence, which is, in effect, struggle for the right to rob without punishment (or for ability defend oneself against such robbery).

It is important to emphasize that, just as in the case of other monopolies, *the point is not that the government should be liquidated at all* (I, personally, is no anarchist). The point is that the government's *privilege* on unpunishable offences and violation of fundamental human rights should only be liquidated.

As I have mentioned in 4, the activity of any present-time government is dual and self-conflicting in nature: (1) protection of fundamental human rights, on the one hand; and (2) violation and protection of violation of fundamental hundred rights, on the other.

The activity of the former type, even if in the form of violence, is essentially no violence, but is protection against violence. Nor is it fully monopolist, because an individual can himself

defend his or her fundamental rights (is entitled to self-defence), even though to a limited extent (lynching, for example, in contrast to self-defence, is not permissible).

Now, the activity of the latter type is a monopoly on unpunishable violence in its pure form, a monopoly on an offence without punishment. Any violation of fundamental human rights is violence. The government claims that any act of violence it does is legal and any resistance to it or “evasion” from it is criminal. Far from leading to avalanche-like impoverishment of a community, this also undermines the basic principles of morality and law, the foundations of voluntary and mutually profitable co-operation. Any call to observe the laws as such, irrespective of their content, undermines law and defends violence. Compared to the government’s monopoly on unpunishable violence, any other monopoly, even the central bank’s money monopoly, looks like a plaything, because they rob people in a single, quite definite way and it is possible to defend oneself, somehow or at least partly, against such robbery, for example, by limiting one’s use of money.

Conclusion

Fundamental human rights — liberty, ownership and contract — are sacred and inviolable. Any act of violation of them (no matter how justified) is an act of violence and a criminal offence. The government ought to defend individuals against violence (by violent ways as well), but it has no right to and must not use violence itself.

The global view on the liberal programme for the new age can be worded in a single sentence:

The government’s monopoly (privilege) on unpunishable violation of fundamental human rights should be liquidated.

Liquidation of this part of the government, which does not protect people against violence but, on the contrary, serves as a source of violence and legally protected robbery, will lead not only to a steep rise in the national wealth, but also to the improvement and strengthening of moral standards and principles, and will result in a situation where being useful for others will be the only possibility of getting something for oneself and an individual's incomes will be a measure of his or her usefulness for others.