# Section 4: The Ambiguous Antitrust Law

After understanding the causes of monopoly, it is easy to can understand why the “Antitrust Laws” are entirely wrong, and the consequence of the implementation is inevitably disastrous.

Firstly, antitrust laws invariably use the so-called “market power” as the judgment of monopoly, which means whether the number of producers in the market is large, and whether one of them has a large market share, thus having great power to influence the market price. As has discussed in Section 1, the logic of this judgment is mistaken. The number of producers in the market does not matter. What matters is whether there is entry threshold and how high it is.

There is a fallacy of so-called “Natural Monopoly”. It is believed that because there are huge fixed costs in some industries, the AC decreases along with the increase of output, and there is only one producer in the market, which the most economical. With the always decreasing AC, the larger the output, the lower the AC is. Therefore, it is the most economical to let on producer to produce all the output of the whole industry. Monopoly thus becomes an inevitable result.

However, as has discussed in Lecture 15, the AC is determined by the price, and the AC curve is always coincident with the demand curve and has nothing to do with the fixed cost (actually it should refer to the overhead cost), so there can be that the fixed cost is so large that it keeps falling when the output increases. The correct analysis should be due to the market capacity is too small, one producer is still in the part of declining ADC, the demand has reached saturation, so the market can only feed one producer.

What is more, what does matter is if there is entry threshold, not if the ADC keeps falling. As long as there is no entry threshold, or the entry threshold is low enough, the potential competitors outside the market who can lower the direct cost than that of insiders will overcome the threshold to enter the market. There is no need for government who is often ignorant to the market to enact any antitrust laws.

These redundant laws are more likely to be used by the losers in the competition to attack the winners. Do not forget that human is self-interested, and those who lose in the competition will seek the government’s intervention to help them if possible.

Secondly, even if it is a monopoly, as long as it is not administrative monopoly, it should not be struck. The monopoly caused by innate talent such as sport stars or scenic spot is obviously good thing. As for the monopoly caused by technology, why should it be struck? If one cannot be rewarded by the monopolistic rent, he would not bother to innovate or establish famous brand. Without new technology, how can a society make progress?

What is more, those who can only make up for the direct cost and have no rent or overhead cost are marginal producers who will be eliminated at any time due to a drop in income. A society that is made up entirely of such marginal producers and is full of the so-called pure competition market will be very fragile, unable to withstand any shock, prone to bankruptcy of large number of firms, unemployment of workers and plummeting production.

In fact, “Core Competence”, which is highly valued in management science, is precisely another name of monopoly, because the key feature of it is the difficulty to be imitated or copied by competitors. In other words, what management science tries to teach producers is how to gain monopoly in the market competition. If monopoly should be struck, management science should be banned because it “instigates” producers to commit crimes which are against the antitrust laws.

For the monopoly of which the threshold is constructed by technology, it is actually formed through competition, so it cannot eliminate competition. Even if a monopolist in the market has built up a too high barrier that no outsiders can overcome it to enter the market, the rivals can have another competition way of creating a new market with subversive technology to eliminate the old market which has been highly monopolized.

The bankruptcy of Kodak is precisely a typical example. This giant had once accounted for more than 90% of the film market and 85% of the camera market in the United States, ranked among the top 500 in the world, had numerous patented technologies, and was undoubtedly a monopolist. However, struck seriously by the popularity of digital camera, the price of Kodak’s shares had fallen to be delisted from the New York Stock Exchange, which means the share price is lower than US$ 1, and at last had to apply for bankruptcy protection.

In conclusion, producers are always struggling at the edge of life and death as long as it is not administrative monopolist, because competition is everywhere, and cannot be eliminated by monopoly. There is competition in the market, for the entry threshold of the market, and even in the form of creating another new market to replace the old market highly monopolized. If one thinks he has successfully monopolized the market and can rest on the current brilliant achievements, he is only digging his own grave. One day when he wakes up, he will suddenly find the world is beyond recognition, and his monopolistic rent has been eroded or even wiped out by new technologies or new markets. There is a Chinese saying, “when rowing upstream, if you do not advance, you will drop back”, which is especially true in market competition.