

Letter to Editor

## Why a Monopoly Commission for India?

I HAVE been wondering what is the meaning of a Monopoly Commission in the Indian setting. In this country the philosophy underlying anti-monopoly policy is the idea that private enterprise provides in general the ideal economic system, subject however to some blemishes, of which deliberate restraint of trade may be one. According to the old common-law doctrine, agreements in restraint of trade are not enforceable. (For this reason some of the great international cartels set up their own private courts to enforce discipline upon members.) During the long depression of the inter-war period (which began in England before the world slump) the doctrine was undermined by legal judgments. In a depression, free competition would drive prices down to a level where profits disappear. It could well be argued that workers suffer and customers gain only an illusory advantage. Public opinion, and the views of judges as to what seemed reasonable, were affected by this experience and became tolerant of price fixing.

Now the boot is on the other leg. Profits are only too easy to make. Rings formed in self-defence in the depression (or surviving from earlier depressions) live on in the era of full employment and inflation and take advantage of it. Now monopoly is once more a blemish on the fair name of private enterprise. Orthodoxy requires that competition should rule. With competition, there will be nothing to complain about in the best of all possible economic systems.

But how is competition to be ensured? There is a basic contradiction in the ideology of private enterprise. The pursuit of profits is the motive force which is assumed to be universally beneficent, but it is wrong for groups of firms to agree to pursue profit by regulating their behaviour to their mutual advantage.

The contradiction is sought to be resolved under the present British legislation. All agreements have to be registered; a series of cases are being tried before the Restrictive Practices Court, and the onus of proof is upon the associations of firms to show

that their regulations are not contrary to the public interest.

The first lot of judgments were very severe; recently a number of exceptions have been permitted and there seems to be a certain element of chance in how the Court will decide. This is inevitable, since vague economic doctrine cannot be translated into precise legal rules.

The new legislation has probably done some good in industries where there were vigorous "outsiders" whose growth was hampered by various devices of a ring, such as tying agreements with retailers, or where there were low-cost producers within the ring who were restive under the old arrangements. But where there is a group of firms who do not want to compete, it is impossible to make them do so. Already new devices are being found to make, the regulation of prices and conditions of sale possible without violating the law.

The Restrictive Practices Court is concerned with agreements in restraint of trade. Outright monopoly remains the subject of the Monopolies Commission which preceded it.

Orthodox philosophy on the subject of monopoly is even more vague than on the subject of restrictive practices. The view seems to be that monopoly is not bad in itself (as it is presumed to be under the U S anti-trust legislation) but that monopoly power may be wrongly used. This seems to be very sensible, but what are the rules of right conduct supposed to be? In the text-books excessive profits is the vice of monopoly. Is the Commission supposed to know what is the right rate of profit in any particular market in a particular period? And in the text books firms are supposed, in any case, to be "producing a given output at minimum cost". In real life, the shelter of a strong hold over the market may permit slack management, high costs and sluggish progress. Clearly excessive costs, which waste real resources, are a far greater evil than excessive profits; but where there is only one producer in the field, how can the Commission know what potential costs are? Moreover, even if the Commission had a perfectly clear view of what is right conduct, how

could its gentle admonitions compel a powerful firm to follow it?

The whole affair is far from satisfactory in England. What is it supposed to mean in India? Does a "socialistic" society accept the view that private enterprise is the ideal economic system provided only that competition prevails? And if so, can legislation impose competition in an economy where monopolistic net-works are based upon family connections? What is it supposed to be in aid of?

There is another aspect of the matter, however, that may be warmly welcomed. A Commission with compulsory powers of investigation is a splendid research institution. I strongly recommend it to my fellow academic economists. I served on the Monopolies Commission during its first three years, before its field of operation was split up by the legislation which set up the Restrictive Practices Court. I did not expect to be doing much good to the British economy, and I think I did none at all. But I found the work extremely educative.

First, the confrontation of the feeble orthodox theory with the need to judge individual cases forced me to consider questions such as: What is the meaning of invested capital? What is cost of production in a multi-commodity process? What is the relation between the degree of concentration of an "industry" roughly defined in Census of Production terms, and the degree of monopoly in the various markets that it serves? What is the relation between profitability and growth? I came back to economic theory with these questions in mind, and they have kept me going ever since.

Secondly, the economist on such a Commission learns a great deal about how businessmen think and what goes on in the world. Powers to investigate and publish the doings of the private sector in India would be most valuable. If that is what your monopolies Commission means, I am all for it.

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Cambridge,  
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