

BY ROBERT J. BARRO

THE BEST LITTLE MONOPOLY IN AMERICA



CARTEL CONTEST:
The contenders include the Post Office, Microsoft, and the NCAA. And the winner is...

Every now and then, I run a contest to choose the best monopoly operating in America. This time, the finalists, chosen by a panel of Harvard University economists, are: The U.S. Postal Service, OPEC, Microsoft Corp., the International Longshore & Warehouse Union (ILWU), and the National Collegiate Athletic Assn. (NCAA). Others who just missed the cut are Major League Baseball, the National Education Assn. (NEA), and the Massachusetts Democratic Party.

The U.S. Postal Service has the longest history of monopoly power in the country and has the distinction of being mentioned in the U.S. Constitution. In the past, the post office was impressive in using its monopoly to maintain high wages despite a widespread reputation for poor service. But these past accomplishments have been severely compromised by its inability to control the entry of competitors. First came FedEx Corp. and its clones, then the fax machine, and then, most destructively, the Internet and e-mail. The failure to get Congress to classify all these innovations as first-class mail and therefore the exclusive domain of the Postal Service demonstrates a tremendous loss of muscle. Therefore, this contestant fails to measure up and should probably not even be nominated in the future.

The glory days for OPEC were from the first oil crisis in 1973 through the early 1980s. Led by our friends, Saudi Arabia and Kuwait, OPEC was able to hold down production and thereby create high oil prices, soaring profits, and recession in the West. Since then, things have become more difficult for the cartel. OPEC now controls less than one-third of world oil production, and some unruly members, such as Libya and Iran, are always trying too hard to produce. The U.S. has helped the monopoly via environmental restrictions on domestic production, limiting sales from Iraq, and embracing the Saudis and Kuwaitis. Nevertheless, OPEC's power has declined, and high oil prices emerge only intermittently, at times of world crises. One panelist also complained that, despite its implicit collusion with the U.S., OPEC is not American and should be disqualified. Therefore, it is hard to see how OPEC can ever win this contest.

Microsoft is a dangerous monopolist, according to the U.S. Justice Dept. Probably the biggest problem with this argument is that the Redmond (Wash.) company attained its dominant position in operating systems and software by providing low-priced, innovative products that

consumers valued. In fact, the main point of the recent antitrust case (and of the case against IBM years before) seemed to be to provide substantial fees for numerous lawyers and economists. The recent court-approved settlement agreed that no aggressive remedy was warranted. Given this, how can Microsoft be America's best monopoly?

A more serious candidate is ILWU, the West Coast longshoremen's union. Here we have a group of about 10,000 semiskilled workers who have used their monopoly position to push up their annual salaries to more than \$100,000 and have the muscle to damage the entire U.S. economy. The union has excelled at limiting the introduction of productivity-enhancing technology that would likely compromise its monopoly power. In the heyday of antitrust enforcement in the 1890s under the Sherman Antitrust Act, the ILWU would have been declared illegal as a "conspiracy in restraint of trade." But later legislation effectively exempted labor unions from antitrust laws. Thus, the ILWU's only restraints seem to be the ongoing injunction against their strike that President George W. Bush imposed under the Taft-Hartley Act and the possibility that the Bush Administration would eventually send in troops to run the West Coast ports on the grounds of national security. Perhaps these pressures account for the recent apparent settlement between ILWU and the shipping companies. This is good for the country's economy but bad for the union's claim to be the country's best monopoly.

Finally, we come to the NCAA, which has successfully suppressed financial competition in college sports. The NCAA is impressive partly because its limitations on scholarships and other payments to athletes boost the profitability of college sports programs. But even more impressive is the NCAA's ability to maintain the moral high ground. For example, many college basketball players come from poor families and are not sufficiently talented to make it to the National Basketball Assn. Absent the NCAA, such a student would be able to amass significant cash during a college career. With the NCAA in charge, this student remains poor. Nevertheless, the athletic association has managed to convince most people that the evildoers are the schools that violate the rules by attempting to pay athletes rather than the cartel enforcers who keep the student-athletes from getting paid. So given this great balancing act, the NCAA is the clear choice for best monopoly in America. ■

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