

A CRITIQUE OF MISES'S THEORY OF MONOPOLY PRICES

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In his *magnum opus*, *Human Action*, Ludwig von Mises deduces, in a value-free manner, economic laws from the *a priori* axiom of human action. His achievement is also a defense of the market economy which is considered, from a utilitarian perspective, as the only framework in which it is possible to realize “the objective of social cooperation . . . of the greatest happiness of the greatest number” (Mises 1998a, p. 830). From whence springs the increase in the range of means suitable to the fulfilment of individuals’ ends? It comes from voluntary human interactions (exchanges) under the auspices of the division of labor and specialization. This allows for the emergence of a widely used medium of exchange, i.e., money, and thus also economic calculation.

In the larger picture of the market as a harmonizer of the market participants’ interests, Mises identifies a “failure”: monopoly prices. He describes this as a situation in which the pattern of production chosen by the monopolist does not allow for the complete satisfaction of the most important wants of consumers. The unique owner of a monopolized resource withdraws a part of the supply of goods from the market, or restricts his production from the very beginning in order to obtain higher net proceeds than otherwise.

Mises identifies three conditions required for the emergence of a monopoly price. The first refers to the “monopoly of supply,” as the single potential supplier of the good on the market. The second condition is the inelasticity of market demand:

The reaction of the buying public to the rise in prices beyond the potential competitive price, the fall in demand, is not such as to render the proceeds

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resulting from total sales at any price exceeding the competitive price smaller than total proceeds resulting from total sales at the competitive price. (Mises 1998a, p. 355)

To put this another way:

If conditions are such that the monopolist can secure higher net proceeds by selling a smaller quantity of his product at a higher price than by selling a greater quantity of his supply at a lower price, there emerges a *monopoly price* higher than the potential market price would have been in the absence of monopoly. (Mises 1998a, p. 278)

Third is “a special condition,” “the monopolist’s ability to discover such prices” (Mises 1998a, p. 359). This is the condition that differentiates the Misesian approach from the neoclassical analysis, the latter being based on the implicit assumption regarding knowledge of the demand curve (Coase 1937).¹

Rothbard’s critique of the relevance of the concept of monopoly prices on the free market, including here the Misesian approach, is very compelling.² He demonstrates that in the context of the private-property order, the operational criterion for distinguishing between market price and monopoly price is entirely lacking (Hoppe 1990, pp. 249–63). All the particular characteristics of the so-called “monopoly price” are ordinary features of market prices: the comparative restriction of production in order to achieve a higher price and the expectation of an elastic demand above the selling price. Rothbard emphasizes that the meaningful concept on the market is that of “self-sovereignty over his person and property” (Rothbard 1993, p. 562).³ This is closer to the meaning of the market as a private-property order. He relegates the existence of “monopoly prices” to the hampered market, where the difference between a market price and one resulting from privilege received from the state is logically coherent.

The goal of our inquiry here is to add weight to the Rothbardian critique of Mises’s theory of monopoly prices. We do so by highlighting the inconsistencies of the latter’s treatment of monopoly prices and by arguing that it is incompatible with his own general framework of praxeological analysis. In the first part, “Welfare Arguments Based on Value Theory,” we discuss the implicit interpersonal comparisons of utility Mises uses in order to claim that consumers are hurt by monopolistic restriction of production. We argue in the second part, “Propertarian Monopoly Theory,” that monetary revenues cannot

¹Coase acknowledged the problem, “that the producer does not know whether his estimate of the demand curve is correct or not.”

²See Rothbard (1993, chap. 10) and, for further development along Rothbardian insights, also Block (1977). See also Hoppe (1989, chap. 9).

³For the concept of “consumer sovereignty,” see Persky (1993). For a defense of Misesian theory of monopoly prices, see Kirzner (2000, pp. 165–79).

convey information about comparative consumers' welfare and that the correct approach to deal with welfare statements is to point out the framework of property rights under which actions are undertaken. Section three, "Monopoly Prices and Information," is devoted to the proper context of a possible identification of monopoly prices. We focus on this goal by questioning the compatibility between two of the Misesian conditions for the emergence of monopoly price. The final section, "Restriction of Production and Reservation Demand," examines in what sense the restriction of production allegedly used by the monopolist to extract more money than otherwise from consumers could be the element which allows us to differentiate between competitive prices and monopoly prices. We will argue there that Mises changes the framework of discussion from the real market to an equilibrium construct in order to arrive at a meaningful distinction between market prices and "monopoly" prices.

WELFARE ARGUMENTS BASED ON VALUE THEORY

Embarked upon the task of showing that consumers are hurt by the "monopolistic" restriction of production policy, Mises makes an implicit value judgment and also assumes the possibility of an interpersonal comparison of utility. If the producers restrict the quantity produced and offered on the market and a smaller quantity of this particular good is produced, then a comparatively higher quantity of relatively nonspecific factors of production will be available for other products. This means that different consumers will enjoy a higher quantity of other goods offered on the market.

By deploring the perceived reduction in quantity produced, Mises overlooks the fact that a higher quantity would have diminished the quantity of other goods. For instance, using an additional quantity of lumber to produce chairs will necessarily diminish the number of tables which could have been otherwise obtained. This allocation of resources will bring about a lower price of chairs and a higher price of tables than otherwise. This scenario is a common one in our world of nonspecific scarce resources. In the second quote by Mises above, he implicitly considers that the marginal utility of certain individuals derived from the consumption of the would-be additional production is higher than the present marginal utility of other individuals who are benefited from the increased supply they enjoy. The relative wealth position of the two categories of producers would also have been different (Mises 1981, p. 348). As the analysis runs in terms of a market economy without an aggressive interference by the government, we cannot defend the case of the first category against the second without making an implicit value judgment.⁴

⁴See Armentano (1990, pp. 28-29) for a discussion about the impossibility of "discovering, comparing, measuring" the resulting gains and losses. According to Egger (1995, pp. 191-92):

Mises recognizes this fact, but explains his position by saying that the goods produced with the freed factors of production are less important, from the consumers' point of view, than the goods whose production was purposefully restricted:

Capital and labour, set free by the restriction of production, must find employment in other production. . . . Thus against the smaller production of the monopolized goods one must set the increased production of other goods. But these, of course, are less important goods, which would not have been produced and consumed if the more pressing demands for a larger quantity of the monopolized commodity could have been satisfied. *The difference between the value of these goods and the higher value of the quantity of the monopolized commodity not produced represents the loss of welfare which the monopoly has inflicted on the national economy.* Here private profit and social productivity are at variance. (Mises 1981 p. 348; emphasis mine)

What criterion could we use in order to arrive at the conclusion that the units of the monopolized good which would have been produced instead are more valuable than the goods actually produced with the liberated factors of production?

Mises frequently speaks about the fact that entrepreneurs, by looking for the highest net proceeds, respond to the most important desires of the consumers (Mises 1998a, p. 337). Without questioning for the moment the legitimacy of this criterion, we wonder why, in the case of monopoly prices, this criterion no longer applies? Mises defined monopoly prices (the second condition for the emergence of monopoly prices) as prices at which net proceeds are higher than otherwise. Let us accept the view that higher monetary incomes are the expression of the better satisfaction of consumers' desires and apply it to monopoly prices. The result is that the monopolistic "restriction of production" assures a rational combination of resources, a higher satisfaction of consumer preferences than otherwise, because consumers are ready to give a higher amount of money for the restricted production.

Thus, if, in the paragraph quoted above (Mises 1981, p. 348), "value" means total (monetary) proceeds obtained by sellers, it is contradicted by Mises's second condition of the emergence of monopoly prices, i.e., inelasticity of the consumers' demand. According to this condition, the monopolist allocates resources in order to obtain the highest net proceeds from the present use of the factors of production. This means that, by restricting production,

the consumers are worse off, but the monopolist is better off. How can we conclude that welfare is lost? . . . the simple fact that the consumers preferred the previous state does not establish their right to it; in fact, the monopolist—if his position was achieved and is maintained by voluntary exchange—does have the right to assert the higher price and lower quantity.

he obtains higher net proceeds than otherwise, i.e., he directs resources to their most value-productive use. The complementary factors of production, which could have been devoted to an increase in the production of the “monopolized good,” are allocated to other, more remunerative activities. If our “monopolist” could obtain higher net proceeds by using these complementary factors of production to produce yet a higher quantity of the monopolized good, he would have done it. Let us assume, for instance, that the producer must decide between the following patterns of production: either producing 80 units of the monopolized good with anticipated net proceeds of 1,000, or producing 100 units with expected proceeds of 900. From an *ex ante* point of view, the entrepreneur estimates not only the prices of the good, but also the prices of complementary factors of production. The above situation could be interpreted as follows: there are other, more remunerative productive uses for the additional quantity of complementary factors of production necessary for a potential increase in production. The monopolist cannot afford to buy them, given his resources and his anticipations, unless he is willing to make a gift to his potential consumers. This means that other entrepreneurs bid up the prices for these factors of production because they anticipate a higher value-productive use in their own enterprises. This happens at every moment on the market: factors of production are obtained by capitalist-entrepreneurs who anticipate a higher value-productivity of factors of production in the production of goods and give a higher price for them. This is not at all associated with a “market failure.” To the contrary, this method assures the satisfaction of the most important desires of consumers.

On the other hand, let us suppose that “value” means satisfaction derived from consumption of the two different kinds of goods by different individuals on the market. If so, Mises’s argument involves a clear case of an aggregation of subjective valuations and interpersonal comparison of subjective values. But why should only a fraction of the present consumers be taken into account and be considered worse off as a result of “monopolistic” activity? Why not also take into account future potential consumers if “consumers” are our only concern? By restricting present production, the monopolist is able to provide more goods in the future than otherwise. Thus, other, or the same, consumers would be better off at that latter time. This is tantamount to saying that the part of the monopolized input unused by its owner has an opportunity cost (the anticipated future revenues), which must also be included in his economic calculation.

So far we have assumed that the criterion of monetary net proceeds allows us to differentiate among the lines of production which better satisfy consumers. Now let us examine if this criterion is sufficient to establish the desirability of the goods that are given up, from the consumers’ point of view. We will first examine this issue from the individual’s perspective, and then at the level of the entire market.

We must first renounce the fallacy that price measures the value of goods exchanged. Mises rejected any notion of measuring value by the money prices people are willing to give up in order to obtain desired goods:

People buy and sell only because they appraise the things given up less than those received. Thus the notion of measurement of value is vain. An act of exchange is neither preceded nor accompanied by any process which could be called a measuring of value. (Mises 1998a, p. 205)⁵

As the Austrians emphasize, money prices are exchange ratios. There is no previous act of individuals that attaches value to goods received and given in exchange (Hülsmann 2002; White 1995). From an act of exchange all that the external observer can deduce is that the individual prefers the good received to that given up. Nor is the situation on the monetary side any different. Money is nothing else than an economic good which serves as medium of exchange. Individuals could prefer a good to a certain amount of money, i.e., they express greater preferences for the good than for money, or the goods that this quantity of money could purchase.

The price on the market is determined by the preferences of the consumers and the stock (or supply, if we take into account the possibility of a reservation demand on the part of the producer). At the market price, each individual agrees to perform the exchange as long as the sum of money (the price) ranks lower on his value scale than the good he buys.

“Present” prices are formed at different points in time in the immediate past. Of course, the scales of value of individuals can change from one moment to another. This fact precludes us from deriving from the higher amount of money spent for a given good the conclusion that this good is more highly valued than another, cheaper alternative. Assume, for instance, that according to my value scale I am willing to give \$1,200 for good *x* and \$1,000 for good *y*, but the market prices are \$800 for the first and \$900 for the second. I am therefore a supramarginal buyer for both goods. By purchasing them, I demonstrate only that at different points in time I prefer the good *x* to \$800 (or to the goods which could be bought with this sum) and the good *y* to \$900. But an external observer cannot say that the first good is ranked lower or higher on my value scale. He cannot even conclude that I have

⁵On the issue of consumer’s equilibrium there is a qualitative distinction between the neoclassical formula $MU_1/P_1 = MU_2/P_2$ and the Austrian approach. The Austrians’ critique refers to the irrelevance of the concept of indifference for the explanation of human action. They point out that every choice involves a fundamental inequality between the ranks of the two goods exchanged. The neoclassical formula neglects also the purely ordinal character of preferences, in which case the idea of dividing ranks by cardinal numbers is simply meaningless. I am indebted to Guido Hülsmann for bringing to my attention this issue. For an extensive critique of the neoclassical view see Hülsmann (1999), and Block (1999).

demonstrated preferences ranked *on the same* value scale.⁶ Therefore, neither the unit price, nor the total expenditure on a good by an individual measures its “value” to him; it follows that we cannot use amounts of money as a welfare criterion, to perform comparisons between the effects of different actions on different people’s welfare.

At the level of the market for a product, the welfare information which could possibly be conveyed by higher net proceeds is even less accurate than at the individual level. In the latter case, at least we have a choice of the individual, and thus a scale of value demonstrated in action. This is definitely not true for the market demand; we cannot construct a scale of value for all consumers taken together, and even if we could arrive at a certain ranking of the goods desired by these individuals, this would be the result of individual exchanges made at different moments, not the demonstrated preference of a supra-individual acting entity. There would also be another problem: what criterion do we have to use in order to rank the goods bought by people in a community? The quantity exchanged, total net proceeds, or the number of people who have bought the particular item, etc.? Moreover, the attempt to arrive at a unique ranking of goods at the level of the community (irrespective of the criterion chosen) is useless, as the attainment of this goal, *per impossible*, will necessarily depend on subsequent voluntary interpersonal exchanges.

The fact that we cannot rely on monetary proceeds to compare consumers’ satisfactions associated with the consumption of goods is even more evident in the case of inelastic demand. In this case, the restriction of production leads to sales at a higher unit price, and the total net proceeds are therefore higher than from selling a larger quantity at a lower price.⁷

In this section we have shown that Mises embraces the nonscientific method of interpersonal comparison of utility in order to support his claim that “monopoly prices” would have a negative impact on consumers’ welfare. Mises does not succeed in proving, by using value theory, that consumers are hurt by the “monopolistic” restriction of production.

⁶We could also mention here the impossibility of measuring pure psychic satisfactions. But even if one day psychology succeeds in finding a unit to measure these satisfactions, the economic analysis remains unchanged. For the same quantity consumed from a good does not always produce the same “amount” of satisfaction even at the level of the individual (Hülsmann 2002).

⁷Fetter (1915, p. 75):

Sometimes the rise of price through decreased production is so great that the total price of the whole supply is greater than the total price of the larger supply (and vice versa, in case of increased production). This is the paradox of value applying to a whole market and to the buyers’ curve of composite demand, rather than to the individual and to his valuation curve.

PROPERTARIAN MONOPOLY THEORY

Mises's theory of monopoly price is based primarily on the reaction of consumers to a price higher than the supposed competitive market price. We previously argued that the loss of welfare that this increase in price causes cannot be revealed by monetary figures.⁸ The only other possible approach is the one advocated by Rothbard, in his presentation of the concept of monopoly privileges on the hampered market. Here, the reduction in individual's welfare stems from legal obstacles impeding market participants from following the most highly ranked use of their resources. The issue is discussed in terms of infringement on the property rights of individuals, who are prevented from allocating their property according to its most highly ranked uses, irrespective of the changes in prices:

[T]he would-be competitors are injured and are forced to accept lower remuneration in less efficient and value-productive fields. The consumers are likewise injured, for they are prevented from purchasing their products from competitors whom they would freely prefer. And this injury takes place apart from any effect of the grant on prices. (Rothbard 1977, p. 37)⁹

Rothbard (1956) acknowledges that we cannot infer propositions concerning welfare by relying on monetary terms derived from value theory. Instead, his welfare criterion employs demonstrated preference based on respect for property rights.

Even as an economist who does not develop a theory of property rights, but assumes the paramount importance of this concept in economic theorizing, Mises could have solved the problem of monopoly prices. Thus, in the chapter dealing with monopoly prices, Mises recognizes that:

The entrepreneur in his entrepreneurial capacity is always subject to the full supremacy of the consumers. It is different with the owners of vendible goods and factors of production and, of course, with the entrepreneurs in their capacity as owners of such goods and factors. (Mises 1998a, p. 355)

By allowing the capitalist to "withdraw" a certain part of his production from the market, Mises agrees in principle with the meaning of the sovereignty

⁸Kirzner (2000, p. 174) emphasizes the idea that "For Mises, monopoly is identified *at the level of resource ownership*—not, except as a derivative, *at the level of the decisions made by producers*, as in neoclassical theory" (*italics his*). But the concept of resource ownership has no meaning if it is not accompanied by the decision to produce and supply.

⁹See also Ballvé (1963, p. 54) who states: "But it is impossible to find a single example of a monopoly that has ever existed without official protection" (*emphasis his*).

of the individual, in the sense used by Rothbard.¹⁰ Mises implicitly agrees with Rothbard that the owner of the factors of production decides upon the amount of his resources to be used in production. But, in the appraisal of monopoly prices, he makes a sharp distinction between the entrepreneur and the capitalist, in spite of the fact that they could be distinguished only as functions on the market, as Mises says.¹¹ If the emphasis were put on the entrepreneurial endowment with some property, as a prerequisite of action, i.e., on the concept of capitalist-entrepreneur, the conclusion would have been different. Mises could not have avoided the conclusion that the involvement of entrepreneurs *with their resources* on the market depends on their willingness to participate as much as they want and as long as they want in the social division of labor and cooperation. He would have eventually arrived at the same monopoly theory as Rothbard.

MONOPOLY PRICES AND INFORMATION

Mises (1998a, p. 359) considers a special condition for the emergence of monopoly prices, “the monopolist’s ability to discover such prices,” as an additional obstacle to the emergence on the market of this special category of prices:¹²

¹⁰Rothbard (1993, p. 560): “the individual is sovereign over his own person and actions and over his own property”; and

The producer, and producer alone, decides whether or not he will keep his property (including his own person) idle or sell it on the market for money, the results of his production then going to the consumers in exchange for their money. This decision—concerning how much to allocate to the market and how much to withhold—is the decision of the individual producer and of him alone. (p. 562)

¹¹Mises (1998a) writes:

When men in dealing with the problems of their own actions, and when economic history, descriptive economics, and economic statistics in reporting other people’s actions, employ the terms entrepreneur, capitalist, landowner, worker, and consumer, they speak of ideal types. When economics employs the same terms it speaks of catallactic categories. The entrepreneurs, capitalists, landowners, workers, and consumers of economic theory are not living men as one meets them in the reality of life and history. They are the embodiment of distinct functions in the market operations. (p. 252)

A capitalist is always also virtually an entrepreneur and speculator. He always runs the chance of losing his funds. (p. 254)

¹²I am indebted to Jeffrey Herbener for this point.

The monopolist does not know beforehand in what way the consumers will react to a rise in prices. He must resort to trial and error in his endeavors to find out whether the monopolized good can be sold to his advantage at any price exceeding the competitive price and, if this is so, which of various possible monopoly prices is the optimum monopoly price or one of the optimum monopoly prices. (Mises 1998a, p. 359)

We wonder if the method of trial and error, always time-consuming, could be applied in this case and if it could convey valuable information to the monopolist.

In his approach, Mises implicitly assumes that the relevant factors for the determination of prices (consumers' preferences and the stock of goods offered) remain constant in time. This is an assumption without theoretical foundation, because preferences change over time. It is however a necessary assumption for a meaningful comparison between the two prices that interest us here. For the monopolist (in fact every producer-seller) tries to obtain the highest possible net proceeds given the external conditions he faces: present and future anticipated consumers' preferences, and the competition on the markets for complementary factors of production. The time-consuming movement from competitive to monopoly price has a meaning in the context of the trial and error method only if the restriction of production will meet the same scales of values of consumers. If the preferences of consumers change and they become more willing to consume the "monopolized" good, the price will be higher than otherwise. By merely looking at past prices, the monopolist will not know if they were as high as they were because he succeeded in obtaining a monopoly price or because the preferences of consumers were different.

Without knowing the praxeological relationship between past prices (as it is for instance in the case of prices for factors of production versus prices of the goods obtained by using them) we cannot say that, for instance, an increase in price is correlated necessarily with a diminution in consumers' welfare. That result may be, instead, the consequence of a more intense desire for this good. Behind these prices are different historical circumstances, as Mises explained:

There are monetary units and there are measurable physical units of various economic goods and of many—but not of all—services bought and sold. But the exchange ratios which we have to deal with are permanently fluctuating. There is nothing constant and invariable in them. *They defy any attempt to measure them. They are not facts in the sense in which a physicist calls the establishment of the weight of a quantity of copper a fact. They are historical events, expressive of what happened once at a definite instant and under definite circumstances. The same numerical exchange ratio may appear again, but it is by no means certain whether this will really happen and, if it happens, the question is open whether this identical result was the outcome of preservation of the same circumstances or of a return to them rather than the outcome of the interplay of*

a very different constellation of price-determining factors. (Mises 1998a, p. 211; emphasis mine)

Even if the monopolist obtained in the past higher net proceeds by engaging in the so-called “restriction” of supply, he cannot infer from this that the conditions are the same today and consequently an additional restriction would once again increase his revenues. He has to judge future preferences of consumers and the price they will be ready to pay, every time he determines the quantity he will offer. His entrepreneurial understanding of the particular situation is not aided by theoretical knowledge. As there is no economic law that relates changes in prices to changes in net monetary proceeds, and as there cannot be, his entrepreneurial ability relies on the accuracy of his judgment and forecast.

There is yet another way to shed light on the concepts of “monopoly” and competitive prices, namely the counterfactual comparison. Mises’s second condition for the emergence of monopoly prices expresses in fact a counterfactual comparison between the “monopoly price” and the competitive price (Mises 1998a, p. 278).¹³ From this point of view, the relevant comparison is between the price as actually achieved on the market and the counterfactual exchange ratio which would have emerged if the demand, or supply, had been different. In our case, the restriction of supply by the producer is the cause of a (monopoly) price higher than otherwise. But in this case the method of trial and error cannot be used. Historical prices express only what they really are: past exchange ratios, open only to historical understanding. These past prices are not related to present prices. We have seen above that the elements used by Mises to support a counterfactual comparison between competitive prices and monopoly prices—the restriction of production and the elasticity of demand as a condition for higher net proceeds than otherwise—are not coherent. Moreover, even the simultaneous use of the counterfactual analysis and the method of trial and error does not suffice to distinguish theoretically “monopoly” prices from market prices.

RESTRICTION OF PRODUCTION AND RESERVATION DEMAND

We will now examine the foundations upon which the distinction between competitive prices and monopoly prices rests. We will argue first that the concept of restriction of production cannot constitute the differentiating element between the two kinds of prices. Second, and more important, Mises changes the standard of comparison for monopoly prices from the market price to

¹³Mises (1998a, p. 278). For the concept of counterfactual comparison see Hülsmann (2001).

competitive, equilibrium price.¹⁴ In examples, Mises again shifts the standard of comparison back to the market price.¹⁵

For Mises, the achievement of a higher price (monopoly price) than otherwise (competitive price) is the result of a monopolistic restriction of production. This comparative reduction of the supply explains, in the Misesian framework, the lower satisfaction of consumers, the comparative loss in their welfare.¹⁶ But this “restriction of production” represents a phenomenon of the market, indistinguishable from the formation of market, or competitive, prices.¹⁷ These prices are formed in what Mises calls “the plain state of rest,” a description of the functioning of the market. In Chapter 14 “The Scope and Method of Catallactics,” in the explanation of the concept “the plain state of rest,” Mises does not assume that the entire quantity produced will be offered and sold on the market. It is possible that producers have a reservation demand; in fact, by demand Mises understands the total demand to hold as explicitly mentioned by Rothbard (Rothbard 1993, pp. 118-23).

People keep on exchanging on the market until no further exchange is possible because no party expects any further improvement of its own conditions from a new act of exchange. The potential buyers consider the prices asked by the potential sellers unsatisfactory, and vice versa. No more transactions take place. A state of rest emerges . . . which we may call the

¹⁴In the equilibrium framework of a perfect adjustment of production to consumers' demand, i.e., the final state of rest, a reduction in the production of a monopolized good will cause a lower present satisfaction of consumers. I am indebted to Jeffrey Herbener for this interpretation of the Misesian monopoly theory. However, the question remains: is it possible to distinguish between market prices and “monopoly” prices *in the real world*? What is the relevance of the comparison between equilibrium price and monopoly price? For an important reconsideration of the proper place and role of the equilibrium construct, see Hülsmann (2000).

Let us accept for a moment that the equilibrium represents the appropriate standard for an evaluation of the impact of monopoly prices upon consumers' welfare, or that it is possible to have a monopoly price in equilibrium. As property rights are respected, the Rothbardian welfare criterion of demonstrated preference does not help us to identify a reduction in consumers' welfare. Thus, we arrive at the same problem described in section two. The unscientific interpersonal and intertemporal comparisons of utility will still be applied to support the idea of a comparative decrease in welfare. Therefore, even if a consistent definition of monopoly price exists, we cannot deduce from the existence of monopoly price a decrease in consumers' welfare. Moreover, we cannot base an economic policy on this argument. I am indebted to Cristian Comanescu for the last point.

¹⁵See Mises (1998a, p. 369) where he uses the concept of “potential competitive market price.”

¹⁶See Mises (1998a, pp. 381-82) for the idea that, irrespective of the particular reaction of the consumers to the higher price, the consumer's “satisfaction appears to be impaired from the point of view of his own valuations.”

¹⁷Identical with nonmonopoly “market prices,” Mises (1998a, p. 278). As has been stated above, the restriction of production is explained by allocation of scarce resources to more remunerative alternative uses.

plain state of rest. . . . Only those potential sellers and buyers who consider the market price too low or too high respectively have not sold or bought. . . . [T]he notion of the plain state of rest is not an imaginary construction but the adequate description of what happens again and again on every market. (Mises 1998a, p. 354: emphasis mine, except for "plain state of rest", emphasized in original)

Thus Mises seems to believe that competitive prices are compatible with a reservation demand, i.e., the withdrawal of a part of the supply from market for consumption, or speculation.¹⁸ This means that the difference between competitive prices and "monopoly prices" is only a difference in the degree of reservation demand, not one of kind. Let us repeat here that this conclusion results from Mises's definitions. It follows that we cannot use the restriction of production as a criterion to differentiate between monopoly and competitive prices.

In the chapter dealing with monopoly prices, Mises abandons the above characterization of competitive prices, which does not allow him to differentiate monopoly from competitive price, because both types of prices are compatible with a reservation demand. He now uses a characterization of competitive prices that is closer to the concept of final state of rest, (Mises 1998a, p. 354) and distinguishes monopoly from competitive prices, now understood as equilibrium prices toward which the market tends. However, this equilibration process does not explain either why people exchange goods at a certain moment in time, or the exchange ratio. From the *ex ante* point of view of the participants to an exchange, the terms of exchange agreed upon is an equilibrium price, i.e., it is the best alternative under given conditions. The fact that *ex post* one of them, or even both, regrets the exchange, i.e., judges that he could have better used his resource, does not change this.

Thus, Mises changes the meaning of the expression "competitive price." In Mises (1998a, p. 278), the competitive price is the real market price, while for Mises (1998a, p. 354), it becomes the equilibrium (final state of rest) price. Similarly, in a later short restatement of his understanding of the functioning of the market, Mises presents the case of monopoly prices as an exception of the "dominant market tendency to adapt production as closely as possible to consumer wishes" (Mises 1994, pp. 151-58).¹⁹ Here he does not describe the formation of market prices in the real world in which buyers and sellers fulfill their goals. The main characteristic is now the tendency "towards a situation in which supply and demand coincide. At that price . . . for which we shall use the better term *final price*—everyone who wants to buy can buy and everyone who wants to sell can sell" (Mises 1994, p. 153).

¹⁸See Block (1977) for a detailed discussion.

¹⁹The same characterization of competitive market by stressing the equilibrium achieved in the long run is found in a previous paper written by Mises (1998b, pp. 1-28) from 1944 and published under the title "Monopoly Prices."

See comparatively:

Competitive prices are the outcome of a complete adjustment of the sellers to the demand of the consumers. Under the competitive price the whole supply available is sold, and the specific factors of production are employed to the extent permitted by the prices of the nonspecific complementary factors. No part of the supply available is *permanently* withheld from the market, and the marginal unit of specific factors of production employed does not yield any net proceed. (Mises 1998a, p. 354; emphasis mine)

Thus, as we have pointed out above, the fact that the potential supply is not permanently withdrawn from the market is without importance for the price determination at a given moment in time. The magnitude of the price would be the same if the quantity produced but not offered is destroyed or is maintained for future speculation. This emphasis on the “final price” at which all the quantity produced will be sold on the market does not fit in the overall Misesian framework, where efforts are made to explain real market prices, not final equilibrium prices.

CONCLUSION

Built on Rothbardian insights, our attempt to show the peculiarities of Misesian monopoly theory results in a few conclusions.

First of all, in Mises’s theory of monopoly two of the three conditions for the emergence of monopoly prices belong to different realms of scientific inquiry. On the one hand, Mises points out the idea of a counterfactual comparison between competitive price and monopoly price; on the other hand, he stresses the importance of an empirical method to discover monopoly prices. The latter, even if it describes a true statement about market conditions, i.e., the entrepreneurs do not know (beforehand) the market demand curve, does not help us to identify the monopoly price on market.

Second, Mises erroneously founds his welfare arguments on value theory. His utilitarian endeavor to show that “consumers’ sovereignty” is infringed by monopolistic restriction of production does not succeed. He based his arguments on nonscientific interpersonal and intertemporal comparisons of utility.

Third, Mises is not consistent in the use of a standard of comparison for “monopoly prices”: on the one hand, the market prices are not distinguishable from “monopoly prices”; on the other hand, the transfer of the discussion to the equilibrium framework does not help us either, as we try to explain real market phenomena.

Thus, Mises’s attempts to incorporate the neoclassical concept of monopoly price into the framework of the market process, as depicted by Austrians, do not succeed.

Our inquiry supports the largely shared opinion among Austrian economists that monopoly price (at least in its present definition) does not exist on the free market; it appears only, and is logically identifiable, as a result of a privilege given by the State.

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