**Government and the Economy, Maintaining Competition**

Directions

*Part 1*

1. Read the text carefully and underline passages that you find interesting or important to understanding the article.

2. A & B Partner exercise (A ask B why they chose a certain passage and B has to explain; then the roles are switched. Each person should discuss a minimum of 3 passages)

*Part 2*

1. After each paragraph create a one sentence summary for a total of seven.

2. Create a one sentence summary from your seven summaries.

Competitive markets are efficient ways to allocate goods and services while maintaining freedom of choice for consumers, workers, and entrepreneurs. If markets are not competitive, however, much of that freedom and efficiency can be lost. One threat to competition in the market is a firm with monopoly power. Monopoly power occurs when one producer, or a small group of producers, controls a large part of the production of some product. If there are no competitors in the market, a monopoly can artificially drive up the price for its products, which means that consumers will pay more for these products and buy less of them. One of the most famous cases of monopoly power in U.S. history was the Standard Oil Company, owned by U.S. industrialist John D. Rockefeller. Rockefeller bought out most of his business rivals and by 1878 controlled 90 percent of the petroleum refineries in the United States.

Largely in reaction to the business practices of Standard Oil and other trusts or monopolistic firms, the United States passed laws limiting monopolies. Since 1890, when the Sherman Antitrust Act was passed, the federal government has attempted to prevent firms from acquiring monopoly power or from working together to set prices and limit competition in other ways. A number of later antitrust laws were passed to extend the government’s power to promote and maintain competition in the U.S. economy. Some states have passed their own versions of some of these laws.

The government does allow what economists call natural monopolies. However, the government then regulates those businesses to protect consumers from high prices and poor service, and often limits the profits these firms can earn. The classic examples of natural monopolies are local services provided by public utilities. Economies of scale make it inefficient to have even two companies distributing electricity, gas, water, or local telephone service to consumers. It would be very expensive to have even two sets of electric and telephone wires, and two sets of water, gas, and sewer pipes going to every house. That is why firms that provide these services are called natural monopolies.

There have been some famous antitrust cases in which large companies were broken up into smaller firms. One such example is the breakup of American Telephone and Telegraph (AT&T) in 1982, which led to the formation of a number of long-distance and regional telephone companies. Other examples include a ruling in 1911 by the Supreme Court of the United States, which broke the Standard Oil Trust into a number of smaller oil companies and ordered a similar breakup of the American Tobacco Company.

Some government policies intentionally reduce competition, at least for some period of time. For example, patents on new products and copyrights on books and movies give one producer the exclusive right to sell or license the distribution of a product for 17 or more years. These exclusive rights provide the incentive for firms and individuals to spend the time and money required to develop new products. They know that no one else will copy and sell their product when it is introduced into the marketplace, so it pays to devote more resources to developing these new products.

The benefits of certain other government policies that reduce competition are not always this clear, however. More controversial examples include policies that restrict the number of taxicabs in a large city or that limit the number of companies providing cable television services in a community. It is much less expensive for cable companies to install and operate a cable television system than it is for large utilities, such as the electric and telephone companies, to install the infrastructure they need to provide services. Therefore, it is often more feasible to have two or more cable companies in reasonably large cities. There are also more substitutes for cable television, such as satellite dish systems and broadcast television. But despite these differences, many cities auction off cable television rights to a single company because the city receives more revenue that way. Such a policy results in local monopolies for cable television, even in areas where more competition might well be possible and more efficient.

Establishing government policies that efficiently regulate markets is difficult to do. Policies must often balance the benefits of having more firms competing in an industry against the possible gains from allowing a smaller number of firms to compete when those firms can achieve economies of scale. The government must try to weigh the benefits of such regulations against the advantages offered by more competitive, less regulated markets.