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OUTSIDE VIEW: IDEOLOGY OVER ECONOMICS

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A UPI Outside view Commentary
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WASHINGTON, July 6 (UPI) - The Republican Party legitimately prides itself on its core belief that competition and less government intervention is the best way to maximize U.S. consumer welfare.

While the maxim of less government and more competition is certainly true in the abstract, economic policy still cannot be approached in a vacuum. Indeed, as noted economist William Baumol wrote, it is critical to recognize that "it is not markets *per se* that are beneficial to consumer welfare, but effectively competitive markets that can be relied upon, in the absence of regulatory constraints, to enhance output and investment and to serve the public most effectively."

As such, Adam Smith's proverbial "invisible hand" simply does not work in an "apples to apples" fashion.

This being said, there is a mounting rift in the Republican Party between those in the "pro-growth wing" who understand the need to conduct this requisite economic analysis and a growing dogmatic wing of the GOP who refuse to do the requisite intellectual "heavy lifting" due to a blind faith that Adam Smith's invisible hand can cure almost any economic problem.

Unfortunately, because the well-documented excesses of the Clinton/Gore administration provided such an abundance of evidence of government run amok, this reactionary wing of the GOP is successfully

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pushing for policies that limit government so severely that we are ending up with unfettered monopolists – *regardless of the economic cost.*

The big problem with such a dogmatic approach, however, is that it not only betrays core conservative economic values and established economic theory, but also pushes the political agenda right into the Democrats' hands by providing them with ample ammunition to bolster the erroneous perception that Republicans are exclusively for "big business" and not consumers.

As such, if the GOP does not curb this growing dogmatic wing of the party and return to core Republican economic first principles, then – especially as the economy continues to falter – the GOP will do great harm to their chances for victory in the upcoming 2002 and 2004 elections.

An excellent illustration of the bastardization of these core GOP principles can be found in the current broadband debate, where the Baby Bells have found staunch allies in these GOP zealots to argue for policies that would deregulate the Bells' broadband offerings.

"Not to worry," they claim, "because technological innovation will mitigate any residual market power concerns." Such a myopic view represents a naive understanding of basic economic theory and the underlying economics of the telecoms industry itself, however, because as the Supreme Court recently recognized, "broadband" – a service – does nothing to constrain the Bells' monopoly – and with this monopoly their ability to raise prices and restrict output over the "last mile" – the facilities – of the network.

(This is not to ignore the fact that the Bells had an extremely strong relationship with the Clinton/Gore administration and successfully pushed for economically-flawed structural policy outcomes that contribute directly to the economic woes we are suffering today. Indeed, why the Republicans never used the Democrats' Faustian arrangement with the local Bell monopolists as a campaign theme during the 2000 election remains a mystery.)

For example, the Bell's arch-conservative allies argue that the Internet is competitive because government kept its paws off. Such a statement grossly misreads history, because the U.S. Government never pre-maturely

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deregulated those firms with market power. On the contrary, government had no hesitation to impose stringent structural regulation such as standard technical interfaces and structural separation requirements – something that current FCC Chairman Michael Powell is fighting hard to remove – prevent the Bells from exercise any market power derived from their monopoly control of the “last mile.”

What government did do, however, was to eliminate all possible traditional public utility-type price regulation on new competitors – by definition, lack market power – as to lower entry costs as much as possible.

Moreover, since when have we fallen for the false notion that there is really such a thing as a “benevolent monopolist”? It is Economics 101 that monopolists – by definition – do not innovate or seek to become more efficient.

The recent spate of Bell xDSL roll-out was not spurred on by some entrepreneurial spirit. On the contrary, DSL sat on the Bells’ shelves for almost twenty years. It was instigated because of competitive pressure from new entrants. Why therefore willingly and knowingly facilitate the presence of unshackled monopolists – who can and will stamp out the remaining blood of a competitive telecoms industry – in the ridiculous hope that this policy will somehow result in more broadband deployment. This is irresponsible public policy at the highest level.

As a result of this policy we will still not see more broadband investment; instead such policies will bring broadband investment to a screeching halt.

This concept is hardly revolutionary to true conservatives, because as Fredrich von Hayek – the Nobel prize-winning father of conservative and libertarian economics – warned nearly 60 years ago, an economic policy that deliberately facilitates the creation and maintenance of monopoly “will, in the end, defeat the potential for competition and deregulation because as monopolies become stronger, it is inevitable that people will become united in a general hostility to competition.”

As Hayek argued, “once competition continues to erode, then the only alternative to a return to competition is control of the monopolies to the

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state - a control that, if it is to be made effective, must become increasingly more complete and more detailed."

Today the economy and telecom industry are in grave trouble. That is a result that anyone could have predicted had they paid attention to the policies of the last seven years. However, both consumers and politicians are complaining about "competition" and "de-regulation", along with the perils of "free trade", just as Hayek predicted.

If the Republicans are truly in favor of less government and a market economy, then they have to demonstrate by both word and deed that the main problem is neither "competition" nor "de-regulation" but one of *monopoly*.

So long as the GOP permits dogmatic zealots in their party to prevail and to sacrifice rigorous pro-market economic analysis on the alter of naive ideology, then they do a disservice to the American consumer, their own party's stated economic objectives, and - most egregious of all - to their own Nobel prize-winning intellectual heritage.

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