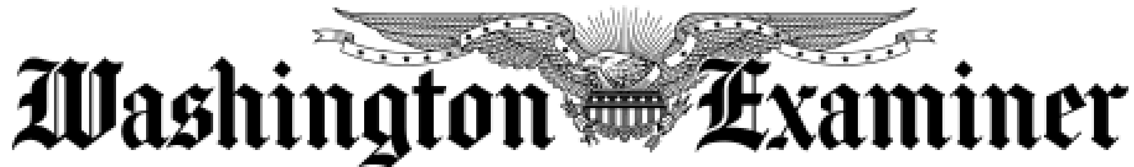

How durable are monopolies?

Rainer Zitelmann

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Every day, we are warned about the power of monopolies, and some concerns are justified. But a look at history confirms that monopolies do not tend to survive all that long.

Large companies such as Google, Amazon, Facebook, Microsoft, and Apple have come to be portrayed as the "enemy" all around the world. The paradox: Almost everyone uses their products and services, but hardly anyone likes the companies behind them. Some concerns are justified, especially regarding the political bias of a company such as Facebook. But most critics who call for stronger government regulation or for monopolies to be broken up tend to overlook the fact that monopoly market positions are not as durable as many people think.

A media analysis conducted by Dirk Auer and Nicolas Pitt confirmed that media coverage of "monopolies" is disproportionately negative and that the press reports more frequently and more extensively on the emergence of allegedly unassailable monopolies than it does on their demise. According to Auer and Pitt's data, the media vastly overestimates the persistence of monopolies.

The tendency toward monopolized market positions is one of the oldest arguments against capitalism. Market-based economies ultimately destroy themselves, so the argument goes, as capital is concentrated and centralized in the hands of a small number of monopolies, which are then able to dominate the economy completely. Lenin presented this very thesis in his 1917 pamphlet *Imperialism, the Highest Stage of Capitalism*, in which he wrote: "This transformation of competition into monopoly is one of the most important — if not the most important — phenomena of modern capitalist economy."

The economic historian Werner Plumpe notes that this thesis is based on the extrapolation of general trends from a number of particularly capital-intensive sectors, including heavy industry. As he also notes, of the largest and most dominant companies from the first half of the 20th century, i.e., the very companies that formed the basis for such forecasts of monopolistic dominance, hardly any have survived into the 21st century.

You don't even need to go all that far back in history to find examples that prove that the durability of monopolies is frequently overstated. In a policy analysis on "monopoly fatalism," Cato Institute economist Ryan Bourne presents numerous recent case studies. Myspace, for example, had been founded in 2003 and, as Bourne reports, quickly experienced a rapid expansion of its user base. As early as June 2006, "the site was the most visited in the United

States, overtaking Google." In 2007, the leading left-wing British daily newspaper, the *Guardian*, asked, "Will Myspace ever lose its monopoly?"

In early 2008, Myspace enjoyed 73.4% of all traffic on social networking sites, and at its December 2008 peak, the site had 75.9 million monthly unique visitors in the United States alone. Just six months later, however, Myspace had been overtaken by Facebook in the U.S., and its overall market share had fallen to 30% by the end of 2009.

In March 2019, Myspace announced that it had lost all of the photos, videos, and audio files uploaded to the site from 2003 to 2016. According to the company, the data loss was due to a server migration error. Today, Myspace has largely slipped off the radar. Bourne concludes: "Importantly, the Myspace history shows that the very network effects that lead to massive growth can also lead to a rapid demise when a superior product comes along."

In November 2008, *Forbes* published an article about the cellphone manufacturer Nokia. The headline on the magazine's cover read: "One Billion Customers — Can Anyone Catch the Cell Phone King?" Having held the crown as the world's largest cellphone manufacturer from 1998 to 2011, Nokia was overtaken by Samsung in the first quarter of 2012 when the South Korean company secured an estimated 25.4% of the cellphone market; Nokia had 22.5% and Apple 9.5%.

Nokia's market share had thus fallen by more than a third since 2008. Nokia had launched the first smartphone in the 1990s, "But it did not foresee the importance of apps to the appeal of the phones until it was too late." Microsoft bought Nokia in 2013, at a time when it had a global market share of just 3%.

These are just two examples of how companies that, from a contemporary perspective, appear to be powerful monopolists often lose their dominant roles within the space of just a few years. Another is Kodak, which had a market share of more than 90% of the U.S. film market and 85% of the U.S. camera market in 1976. However, it first slept through the rise of mainstream digital photography and then suffered as smartphones started to incorporate ever more powerful cameras. In 2012, Kodak filed for bankruptcy and, having come back out of bankruptcy, now focuses on other businesses.

Kodak is an example of a company that managed to hold a monopoly position for decades — but that's not true for the vast majority, as the stories of Myspace and Nokia confirm. Companies such as Google, Facebook, Amazon, and Apple might well appear unassailable today — just as earlier monopolies did. But history teaches us that dominant market positions are, in most cases, far less durable than people tend to think when monopolists are at the peak of their power.