

Was Heckscher right about monopolies on communications in 1921?

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In the beginning of the 20th century there was a debate among economists about monopolies—what should be considered a monopoly, and how to deal with monopolies. The debate resembles current discussions about the market power of large internet companies. Like so many times in history, technology eventually solved the problem.

The Swedish economist professor Eli F. Heckscher³ expressed a fear against monopolies and the role of the state in large industrial processes that enjoyed economies of scale and centrally controlled network systems, such as railroads.⁴ In his view, liberalism worked best with relatively small production and business units, geographical scope for expansion, and population growth, which was much the case in the 19th century.⁵

In 1921 Heckscher wrote about communication systems, especially railways, as an area with a serious tendency toward monopoly.⁶ Railroads were not only monopolies per se, but with the help of state regulation, he feared they could preserve their monopolies against competitors in much the same way that Bastiat wrote in his text about the candle manufacturers petition against the sun. In the 1920s, Heckscher was optimistic and he thought that automobiles, and later airplanes, could challenge the monopoly of rail systems. In contrast to railroads and trams, automobiles were not bound by fixed routes and stations and required little capital. Heckscher knew railways systems, having written his doctoral thesis in 1907 about their importance for Swedish economy.⁷

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² Svensk Tidskrift is a political magazine founded in 1911 by Eli F Heckscher and Gösta Bagge. Today Svensk Tidskrift is a weekly online magazine, a publishing company and a foundation. For more information visit www.svensktidskrift.se.

³ Eli F. Heckscher (1879-1952) was a Swedish political economist and economic historian. Heckscher was professor at the Stockholm School of Economic from 1909 until 1945.

⁴ Eli Heckscher, *Ekonomisk Liberalism*, Svensk Tidskrift 1922.

⁵ Benny Carlsson, *Eli Heckscher's Ideological Migration Toward Market Liberalism*, 2016.

⁶ Eli Heckscher, *Monopoltendenser och deras motsats*. Dagens Nyheter, november 1921.

⁷ Eli Heckscher *Till belysning af järnvägarnas betydelse för Sveriges ekonomiska utveckling*, 1907

Later, in the 1930s, Heckscher grew more pessimistic.⁸ Both periods are relevant for today's discussion, and this paper is very much inspired by the work of professor Benny Carlson, especially the paper *Eli Heckscher and natural monopoly: The nightmare that never came true*.

Today politicians and city planners often look back with a nostalgic view on how cities were planned in the beginning of the 20th century. At that time, besides walking, trams and railways dominated personal transportation. History has shown that Heckscher's optimistic 1921 view was right. Automobiles gave more power to the individual traveler to decide where to go, when to go and what route to take.

But there is reason to reinvigorate Heckscher's analysis today. Mass transit is a monopoly (even if procured), still physically constrained by fixed routes, timetables and political control. The attempts to regulate competitors and with them free mobility in cities very much reminds us of the story about the candle manufacturers petition. Mobility is a cornerstone in a free society.

From Adam Smith we learned that a farmer, by specializing, did not himself need to be baker, butcher and brewer. Hence, through specialization, products became better and less expensive. The "extent of the market" increased, enabled by better and faster transportation.⁹

While in other areas central planning is regarded as folly, in transportation it has become widely accepted. Today we see actors trying to regulate and limit free mobility of goods and services, especially in cities. They believe transportation could be coordinated to be more efficient. I am not thinking about smarter business models from companies but political preferences for planning authorities. Politicians give priority to scheduled mass transit and regulators want to replace mobility with accessibility. They think that mobility could be replaced by access to services and jobs within a 15 minutes' walk. This include a planned economy where politicians identify and locate jobs and services within those areas – thus limiting the market. An idea often referred to by the socialist mayor of Paris, Anne Hidalgo.¹⁰ In this case politicians will decide what services are needed within new virtual city walls, reducing access between city centers and suburbs. Automobiles will be banned, and mass transit will have a monopoly on longer trips. In the 15 minute city, politicians will eventually make the decision about which baker, butcher and brewer shall be available.

F. A. Hayek explained, in the *Use of Knowledge in Society*, how knowledge is dispersed among people and why central planning will fail.

⁸ Benny Carlson (1992) Eli Heckscher and natural monopoly: The nightmare that never came true, *Scandinavian Economic History Review*, 40:3, 53-79, DOI.

⁹ Adam Smith, *Wealth of Nations*, 1776.

¹⁰ Paris Mayor: It's Time for a '15-Minute City', *Bloomberg*, 2020.

The peculiar character of the problem of a rational economic order is determined precisely by the fact that the knowledge of the circumstances of which we must make use never exists in concentrated or integrated form but solely as the dispersed bits of incomplete and frequently contradictory knowledge which all the separate individuals possess.¹¹

Traffic planners observe patterns and attempt to meet people's needs based on this information. But there is a mismatch between the present observed pattern and the prediction of needs. As Hayek told us in his Nobel Prize lecture, observing patterns in a ball game is not enough to predict the outcome of the game.¹² Similarly with traffic, the information planners rely on is not enough for the traffic they are planning for. And for this reason, ambitions to plan how we travel ultimately stand in the way of people's mobility and, therefore, also for free markets and a free society.

The governmental tendency toward monopoly and restrictions on mobility in cities is probably a mix of leftism and experts genuinely believing in the potential of technology. Hayek said: "those intoxicated by the advance of knowledge so often become the enemies of freedom".¹³

Alain Bertaud of New York University has written about urban planning from an Austrian perspective. In his book *Order without design* he explains how cities are big markets and how mobility is the key for this.¹⁴ High density is a result of thriving markets, not something planners can create with the aim to replace traffic and mobility. Bertaud tells us that there are better objectives for city planners:

The objective of urban transport strategy should be to minimize the time required to reach the largest possible number of people, jobs and amenities. Unfortunately many strategies, such as "compact cities", only aim to minimize the distance traveled by inhabitants. These strategies reduce the income of the poor, for whom employment opportunities are reduced to jobs located within a narrow radius of their homes.

Plans to restrict how and when we travel will come at a high cost. Increased productivity is dependent on specialization. Specialization in the labor market will increase the need for individual transport and increase travel distances. Specialization will make markets more efficient and make us more prosperous. Being more prosperous, we will consume more travel and transportation.

¹¹ Friedrich von Hayek, *The Use of Knowledge in Society*, 1945.

¹² Friedrich von Hayek, Nobel Prize Lecture, *The Pretense of Knowledge*, 1974

¹³ Friedrich von Hayek, *The Constitution of Liberty*, 1960

¹⁴ Alain Bertaud, *Order without Design, How markets Shape Cities*, 2018

City walls were in the beginning a fortification. Later, city walls became trade borders, protecting the market monopolies of cities. Tearing down city walls, enabling trade between cities and the surrounding areas, has created immense wealth. The idea of replacing mobility with “accessibility” can be seen as building new, but virtual, city walls.

Looking at the transportation policy in many big cities today, it might seem that the pessimistic Heckscher was right about monopolies fighting for their power. Monopolies in transportation are dangerous because they will also harm other markets.

In a free society we can each day chose what road to take. We don't have to make that choice only on election day. The road ahead after the pandemic is uncertain, however. It seems like people around the world to a greater extent chose individual means of transportation and keep on working remotely from home. New technologies, such as electrical and autonomous cars and micro mobility platforms providing electrical scooters, are also challenging the mass transit monopolies. If we are lucky, the political spheres' attempts to favor politically controlled transport monopolies and restrict free individual mobility in cities are bumps in the road to an ever increasing specialization and liberty. Let us hope that the advice of Eli Heckscher 100 years ago, about how new technology could challenge and defeat monopolies, are followed.