

A Different Perspective on Monopolies

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Some economies can only rationalize a single service provider, and that doesn't always mean the consumer is harmed.

"Monopoly" in the US often carries a negative connotation, conjuring images of greedy tycoons or a rigged board game. But we have monopolies all over the place; we just typically call them "utilities," and they're regulated to (ostensibly) protect the consumer.

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Typically, they make sense, as some services would be economically unviable in cases of duplicative infrastructure (water, sewer, and power are the classic examples, and you could argue for others). We usually think of utilities as massive, multi-billion-dollar infrastructure enterprises, but could a normal, competitive business in one region be considered a utility in another?

And should monopoly considerations be lifted in those cases? We think so—let's explore why.

Government Oversight

First, it's worth revisiting why monopolies are generally discouraged. Since the early 1900s, U.S. policymakers have worked to stop monopolies from occurring before they happen. Broadly speaking, if a business captures enough market share, it prevents new entrants from providing competitive balance and can use that leverage to extract outsized profits from consumers. Regardless of your thoughts on capitalism and free markets, as a regulatory framework, the US has decided that it is bad for society and actively works to prevent it.

One avenue to achieve this is through the government's authority to review any business that has developed into a monopoly organically. Another is that in the event of a merger or acquisition, the Hart Scott Rodino Antitrust Act ("HSR") requires that any transaction with a size of \$126.4 million or higher (as of 2025) needs approval of the Federal Trade Commission ("FTC") and Department of Justice ("DOJ") to ensure that the transaction doesn't



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affect U.S. commerce under antitrust laws. But why is the threshold size-based? Couldn't there be smaller transactions that create monopolies? Of course there could, but there are practical constraints on oversight. First, the government likely doesn't have the capacity to expand its reach. In 2024, approximately 2,000 transactions were reviewed for HSR compliance. Over 9,000 transactions occur annually on the "BizBuySell" platform, an online marketplace for small businesses, alone. Without a major increase in the capacity of the FTC and DOJ, the US government simply doesn't have the ability to review all business transactions that occur each year.

Second, sometimes the regulation doesn't make sense for all business sizes. While the government retains the authority to review any business, let's consider a scenario where a "monopoly-like" situation can occur, but government intervention may not make sense.

Natural Monopolies

Consider a small town that is geographically isolated—you pick where, Montana, Texas, Alaska. There is a single grocery store in town that serves the community, and it is well-established and utilized by all the local population. A consumer's alternative is to travel a far distance to the next community (which is quite costly and timely travel). Customers appreciate the quality of service available at the location, as it stocks all the options they would like, and those options are available when needed.

So, in a situation where consumers need a quality of service and a certain scope of offerings but the market can't support multiple options, then a single provider makes sense. The consumer is served by this monopoly, not harmed.

Is this a monopoly? The company's "market share" can be considered near 100% as community members have few feasible alternatives. Do you think the government should step in and break up



this business? The quick answer is "likely no," but why? Does the same thought process for big businesses not work here? Running a business is expensive before any customers come in to buy their groceries; in this case, stocking inventory, acquiring freezers and shelving, paying rent, hiring employees. With such a limited consumer base in this type of location, a typical Walmart- or Costco-sized facility simply doesn't make sense, as the amount of demand can't cover the required fixed costs necessary to provide that size, scope, and quality of offerings. A second similar-sized competitor in the market would result in another problem: splitting the population between the two businesses simply doubles the fixed investment that must be overcome by a limited consumer demand, which means that competition here could result in both stores going out of business. So, in a situation where consumers need a quality of service and a certain scope of offerings but the market can't support multiple options, then a single provider makes sense. The consumer is served by this monopoly, not harmed.

Businesses in this situation have an unspoken and unwritten "contract" that matches that of a utility: provide the service at a fair price and uphold a certain

quality of service to maintain its position. If the business ever oversteps, competitors and regulators can still "step in", offering a fair-priced alternative for the same level of service and attracting customers away.

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But if the company can internally manage the same constraints imposed on a regulated utility (price, quality, availability), it can maintain its preferred position in the market as a natural monopoly.

Additional Examples

Expanding from our isolated grocery store example, this dynamic is at play all over due to the natural limitations of markets and their need for businesses with high fixed investment. The key attributes to keep an eye on are: (1) geographic limitations: isolated or limited available real estate for such a service, (2) high fixed investment requirements, and (3) limited growth in demand. These attributes show up in other industries of note:

- The oil industry has many examples of this issue: refineries, pipelines, and fuel storage require a significant investment of capital with a few players controlling major market shares in certain regions.
- Airports and seaports offer another (larger) set of examples, where a significant amount of real estate and capital investment is dedicated to planned economy for transportation and trade, but not enough to

rationalize multiple providers for all services businesses offer at the port.

- Outside of oil, many other natural resources have similar constraints. A quarry for aggregates is typically isolated with significant investment needed to move such heavy material, resulting in single players controlling certain regions.

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In many markets, a 100% market share is alarming. In these instances and others, 100% market share may simply reflect smart capital allocation.

Monopolies are not as black and white of a concept as they are often portrayed in popular culture. In some cases, what looks like monopoly power is actually a necessary feature of delivering goods and services efficiently and can be beneficial to consumers. Being the “only game in town” can be a great position for business owners and it might just mean that the business has tapped into a market where scale and geography favor a single provider. The word “monopoly” does not always have to be a dirty word; it may be exactly what allows a community to be well-served.

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