Tomorrow's Affairs
Analysis of today
Assessment of tomorrow

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Why does monopolistic protectionism always lead to high prices?

Foreign friends reading these lines may already know this: Turkey was once a place where you could enjoy a reasonable quality of life at a rational cost. Over the last 2.5–3 years, however, it has turned into one of the most expensive countries in Europe.

There's a popular joke in Turkey: “We earn like Indians and spend like Belgians.” One of the main reasons for this absurd situation is the growing tendency of some businesspeople, who are afraid to openly complain to the authorities about rising production costs, to instead push for measures that block or make more expensive their foreign competitors.

In fact, a very clear pattern has emerged in Turkey in recent years: a system is being built that makes it harder for citizens to access cheaper and higher-quality goods and services and instead forces them into a narrow set of options.

This is usually justified with arguments like “protecting domestic production”, “shielding consumers from misleading products”, or “bringing discipline to the market”.

But the end result is always the same: choices shrink, competition weakens, quality becomes questionable, and prices never quite become “reasonable”.

These kinds of policies are not unique to Turkey. They have been tried many times in history and in many parts of the world.

Each time, they enriched certain groups in the short run but harmed society as a whole in the medium and long run. In short, many measures sold as “protecting the citizen's interests” have in reality weakened the citizen's wallet and freedom of choice.

When protection replaces competition

Let's start with the Ottoman Empire. The guild and “gedik” systems were, in today's language, mechanisms of licensed monopoly. The right to produce and sell a given good was granted only to certain guild members.

New producers from outside, or those who wanted to introduce a different quality standard, were usually blocked from entering the market.

What happens where there is no competition? Prices stay high, and quality is often low. Those who tried to bring innovation risked being pushed out by the guild.

In the end, whatever the official system failed to produce, or did not want to produce, was supplied by what we would now call the informal or underground economy. The more the bans expanded, the more the shadow economy grew.

We see a similar picture in 17th–18th century France. Under the Ancien Régime, many items, from salt to tobacco, were handed over to state monopolies or privileged companies.

People could not even freely use the salt they produced themselves; they faced heavy taxes and restrictions. This level of interference in everyday life went beyond ordinary fiscal policy and turned into something that undermined the sense of justice and fuelled political anger.

The salt tax became a symbolic issue on the road to the French Revolution. Another consequence was the strengthening of smuggling and criminal networks. The more the state prohibited, the more salt and tobacco smuggling exploded in border regions; the state lost tax revenue while the illegal economy grew.

Britain's Corn Laws (1815–1846) are another version of the same logic. The aim was to protect domestic landowners by making it hard for cheap foreign grain to enter the country.

The result was expensive bread for the working class, a lower standard of living and weaker domestic demand. Industry was forced to absorb the high cost of living of workers;

competitiveness fell.

In trying to protect the short-term interests of landowners, the country's overall economic balance was harmed. After long and heated debate, these laws were eventually repealed.

> As long as the state provided protection, companies invested in lobbying, not innovation

In more recent times, India's long-standing "License Raj" system – a regime of permits and quotas – was another face of the same illness.

To produce almost anything, one needed state approval, quotas, and licences. Imports were under tight control. The declared aim was to protect domestic industry.

The actual result was simple: market entry became difficult, a handful of players gained power, and citizens were left with products that were both expensive and often of questionable quality.

Corruption flourished; the bureaucracy in charge of distributing licences began to care less about "efficiency" and more about "who you know." India's growth remained low for a long time; only when these restrictions were loosened in the 1990s and competition and trade increased did both quality and variety improve.

In Latin America, import substitution industrialisation policies implemented from the 1960s to the 1980s worked much the same way.

With the slogan "let's produce everything at home", high tariff walls were put in place, imports were restricted, and domestic producers were fully shielded from foreign competition.

In the short term, this produced large companies often described as "national champions". But over time these firms focused less on technological innovation and more on securing subsidies and protection from the state.

For consumers, the story is familiar: from cars to household appliances, products tended to be expensive and technologically outdated. As long as the state provided protection, companies invested in lobbying, not innovation.

When the debt crises of the 1980s hit, these protected structures could not compete globally; unemployment and inflation rose together.

Licences and bans: a familiar path to decline

Today we see similar reflexes in different sectors. From taxi licence systems to telecommunications markets and digital platforms, de facto monopolies are being created through "licences and bans".

The number of licences is artificially limited, regulations are used to block new entrants, and various prohibitions are introduced to prevent citizens from accessing alternative services.

The outcome is clear: the existing structure is preserved, but consumers are forced to accept more expensive, lower-quality services with fewer choices.

And when an affordable and high-quality alternative does appear, it is pushed out through bans or administrative barriers.

Should the state act as an impartial referee that protects consumers or as a "partner" that limits consumers' choices and means in order to protect certain actors? - Emre Alkin

The side effects of such policies do not change. First, prices rise and quality falls. Without competition, producers or service providers do not feel compelled to offer "better and cheaper".

Second, innovation slows. A protected company finds it more profitable to strengthen its political connections and lobbying power than to improve its products.

Third, the informal and illegal economy grows. When you ban citizens from accessing cheaper and better products, they find ways around the rules; this time, the state loses tax revenue and control.

Fourth, corruption is fed. When the question of, "Who can import? Who gets a license? Who may enter the market?" becomes a matter not of economics but of political and bureaucratic privilege, favouritism becomes normalised.

Fifth, societal trust erodes. When people know they can buy the same product more cheaply in another country, yet at home they are forced to pay more for lower quality, their confidence in the state and in the rules declines.

Finally, skilled people and capital move abroad in search of fairer competition and a more predictable environment.

In Turkey today, many debates are ultimately about this fundamental issue: Should the state act as an impartial referee that protects consumers or as a "partner" that limits consumers' choices and means in order to protect certain actors?

History has shown us a simple truth again and again: any system that narrows citizens' freedom to choose and blocks their access to cheap and high-quality goods through restrictions may enrich a few groups in the short term, but in the long term it impoverishes the entire country.

Wherever we look in the world, the common formula for sustainable prosperity is this: transparent rules, genuine competition, a strong but neutral state as a referee, and a market order that works in favour of the consumer.

Every other path ultimately leads to the same destination: expensive products, low quality, widespread dissatisfaction, and a steadily weakening economy.