ASSESSMENT STAGES OF CYCLICAL DEVELOPMENT OF MONOPOLY AND COMPETITION IN TERMS OF THE RECONSTRUCTION OF AZERBAIJAN ECONOMY

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Abstract

Historical dynamics of a competition and monopoly are analyzed in logic order from the theoretical point of view in this article. It is necessary to note, that comparison of dynamics of a competition and monopoly was various under various historical conditions.

From this point of view, an opportunity to reveal periodical objective laws the important condition during research of process of historical changes of attitudes of a competition and monopoly. These objective laws have not been investigated in the economic literature.

Keywords: dynamics of a competition and monopoly, historical conditions, monopolistic competition, anti-monopoly policy, monopolization of production

JEL Classification Codes: D41

Economic development is distinguished into the several periods by economy science: “Long” periods called “Kondratyev periods” lasting for the period of 50 years; industrial periods covering from 8 to 12 years and short periods lasting 3-4 years.Y.Shumpeter, S.Kuznets,K.Klark,Y.Mitchell and other famous economists

engaged in studying “long periods” after H.D.Kondratyev. It’s determined that transfers from fase to fase in long periods are connected with sharp breakthrough in development of productive forces as the result of technological revolution.

At the same time very small attention was paid to periodical characteristic of development of economic relations. In the soviet economic literature such development of relations was considered as continuous increasing process from lower step to higher steps. It’s true that the dialectic rule of “denial of negative” presupposed historical repetition of spiral-form development of famous “thesis-antithesis-synthesis” on Hegel triad. However such relative repetition was considered in implementation of public formations covering all periods.

Western scientists seldom analyzed historical evolution of economic relations too. Thus in fact, the leading economic thought neoclassic direction ignores the historical principle. The problems of historical dynamics of public relations were prepared by outstanding neo-economists like A.Toynbi and O.Shpengler.

One of the major accomplishments of economic thought in XX century was theory of monopolistic competition. The founder of this theory Edward Chamberlyn noticed that, “The forces of competition and monopoly is knitted in the same fabric and they are different only with pattern [E.H. Chamberlin, 1996 p. 33]. Like Johan Robinson who prepared imperfect competition concept, Edward

Chamberlyn also had vision of mutual influence of monopoly and competition out of scope of the history.

Whereas correlation between monopoly and competition differ in various historical conditions. Possibility of discovering periodic compliances in historical modification process of monopoly and competition relations is the significant condition of analysis. These compliances have never been investigated in economic literatures yet.

The periodic development analysis of monopoly and competition is important not only due to academic view, but also justification of competitive policy's role in general reconstruction strategy of Azerbaijan economy. Understanding and consideration of this problem will enable the increase of influence of government policy which directed to adaptation of Azerbaijan economy to today's dominating global tendencies.

The manufacture system in the middle ages had market structure with zero competition opportunities. Recruiting new workers was extremely difficult and organizational production was prohibited outside manufactures. Strong (tough) regulation of the product range, amount, quality and price of goods produced by every master, salary, quality of labor instruments and means of pupils and skilled assistants – all these are directed to elimination of competition among workshop members [Kulisher I.I. 1986. p. 73]. Regulation in order to eliminate competition

led to empowering of manufactures. Absence of competition caused smaller regulations for maintenance of quality.

However such measures had only little effect. It should be noted that wide spread ideas about the high quality products made by middle age craftsmen is confronting with historical facts. The monopoly of these craftsmen made great opportunity to decrease quality of goods, even deceive and falsification without any punishment. For example, London baker theft dough on the table with secret hole and help of a man sitting under the table in front of the eyes of customers. Blacksmiths produced goods with low-quality iron which melt in the fire. Sheets were tightened and then folded with certain ways to hide defects. Low quality leather tanned in such way, that eternally it looked like high quality leather [V. Rauscher, 1999 p. 48]. From the other side, suppression of competition as M.I.Tuqan Baranovski said, "It caused not availability of very rich craftsmen and extremely poor craftsmen" [Tugan-Baranovsky M.I., 1994.p. 68].

Description of middle age welfare represents some characteristics of daily economic life of Soviet society. Such level of similarity creates possible historical repetition thought on development of monopoly structures forming in economical environments (economical environments in the middle age cities and soviet society) which qualitatively different and distant from each other. A question is rising in this situation: Are there any similarity in development of competition

relations between different historical periods which separated from each other hundred years, too? In order to answer this question let's follow the destruction of manufacture monopoly and its transforming to free competition.

The monopoly power of manufactures over the local markets is based on the unchangeable nature and static character of these markets. Only manufacture production could cope with the payment of public needs problem under such conditions. Manufacture production started to lose monopoly position since XVII century in which markets eventually began to grow and structure of needs changed. Such extremely accelerated historical process with the help of industrial revolution that allowed free competition to go on work.

This process allowed strengthening of competition, creation of national states and the establishment of single national markets in Western Europe. Manufacture production organized as conservative and monopoly hadn't enough power to meet the growing needs of national states and national markets. The states distributed the production of new sectors: silk and cotton cloth, textile products, carpets, porcelain and etc. surely, these productions are not in the area of influence of manufactures. Relatively big manufactures were established in England, France and in some other countries with the assistance of state power. Manufacture production was serious rival for workshop art.

It should be noted that, formed manufactures acted like monopolists which states gave them benefits and also protected them with the protectionism external trade by state. By the laws of French which restricted production, import or sale of pattern roman piece the range of punishment could change from heavy forced labor and put in prison to death penalty. According to some observations, 16 thousand smugglers and illegal producers of pattern roman piece were killed by the French government only during a ten-year anniversary of the XVIII century. In addition, more people have been exiled to colony or otherwise punished [De Soto E. 20015, p. 101]. However despite privileges and regulation, the manufactures gradually connected lines and signs of capitalist entrepreneurship itself. Various manufactures began to work for global market (for example, cloth industries of England and silk industries of France).

The weakening position of workshop production increased in XVIII century. This process intensively developed especially in England in which parliament was against monopolies. Starting from the end of the XVII century English king was deprived of the opportunity of distribution of monopoly rights and at the beginning of the XVIII century the monopolies were cancelled in all new industrial areas. But, in old industrial areas (for example, wool industry), also in primitive industry monopoly rights and privileges were held up to the end of the XVIII century, though were weakened. Restrictions on industry and handicraft sector in

England were completely cancelled only in 1814. Entrepreneurs got the right to produce any commodity and sell them in any place for free. However, essentially this situation already was the formal strengthening of existing situation.

Including the monopoly of workshops, the cancel process of monopoly rights was in lower speed in other countries of Western Europe (except Holland). Turqo government in France cancelled workshops in 1775-1776. But after resignation of Turqo the activity of workshops restored again. Workshops were strictly cancelled in the course of French revolution. Workshops were cancelled in 1810 in Prussia. It's true that, they were restored by legislation in 1849, but this wasn't much important for economy [V. Rauscher 1999 p. 51].

With this rule, it was a long and controversial way of transition from artificial monopoly to free competition relationship. There was a combination of competition zones in the unified system of market competition which began play a regulatory role while transition accelerated from artificial monopoly to free competition relationship. This process ended in the period of industrial revolution in England.

Also it should be noted that, about the supremacy of free competition could be talked only in England, France, Holland and some other countries in XIX century (taking into account last thirty years of the XIX century transition of development of free competition to monopoly stage). In various countries of Western Europe in

the first half of XIX century a lot of restrictions were kept which left from feudalism period of competition. It is enough to remember the restoration efforts of archaic craftsmen workshop in Prussia. Even it is schematic enough to connect free competition period with XIX century. Competition is only empowering in the second half of XIX century in Russia (Subordination of economy and particularly competition processes to regalement and keeping active intervention by government). With this rule free competition existed in the short period of time in a limited number of countries.

What is the reason to look competition leading in these countries as free one in XIX centuries? Firstly attention is attracted by the main burdens as productive forces and undeveloped economic relations that caused a lot of problems to competition. Here, price competition coming up with efforts to defend and expand their market share by decreasing the expenses and relatively lowing prices plays an important role. Price competition itself determined flexibility of market prices, rapid response of prices to demand and supply changes.

These specifications of free competition arebased on relatively low level monopoly of production on leading sectors of industry. For example, the average number of employees was 19 in manufacturing industry enterprises in England in the middle of XIX century [Nikitin S.M. 1993 p. 51].The low level of

monopoly in industry is expressing the impossibility of formation of monopolies which is dominating in the most part of any sector.

At the same time free competition system gradually created material conditions for ignoring itself historically and for transition to another development stage which is characterized already by the ratio of monopoly and competition. Competition created conditions for gradually monopolisation in production and capital sector. In certain level of development this process lead to creation of monopoly coalitions.

The transformation of big coalitions to dynamics of economic life took off in the result of horizontal coalitions and strong wave of absorption in the end of XIX century. That's why, for example the first such wave took place in USA in 1898-1903 resulted with high level of monopoly intra-sphere production.

For example, oil production and oil-refining industries were accumulated in 400 company which had no relationship with each other. Oil trusttrusttrust connected all these companies into one single company which captured 95 % of oil production in USA in 1903. This trusttrusttrust owned 12000 railway cistern, 60 ocean tanker, 8000 oil tank for transporting the produced oil in 1909. American trusts controlled 81 % of chemical, 77% of metal, 61% of steel, 60% of sheet&print, 85 % of lead production and etc. in the beginning of the XX century.

During the I World War there were more than 400 unions in Germany. For example, Rein-Bestfall coal syndicate produced 93% of all Rur coal and 54 % of German coal in 1913. Essen cast iron syndicate which owned 43-44 % of all cast-iron production played an important role too. Also, sugar syndicate controlling 70% of internal market and 80% of export, paper syndicate controlling 80% of paper production and etc. could be noticed [Bagdanov A. 1993 , p. 118].

Prodamet syndicate took major role among Russian syndicatees. This syndicate controlled 83 % of iron sort and layer iron, 95 % of log and sveller , 75 % of railway rails and 100% of railway shafts production and sales in 1912. Produgol syndicate took second place controlling all production of Donetsk coal field or approximately 2/3 part of Russian coal production. This syndicate continuously limited coal supply in market and gained opportunity to increase prices sharply by creating an artificial coal shortage. With the same method sugar syndication (100% of production), Roofing syndication (70% of the production of iron roofing), Copper syndication (95% of copper production), "Platinum" Syndication (90% of platinum production), tobacco trust (70%), plug trust (100%), syndication manufacturing agricultural tools (more than 70%) and "Prodvaqon" syndication (97% of wagon production) functioned well**.** Syndicate movement also covered production of

matches, bottles, mirror glass, brick, salt, river transport and etc [Tsyperovich G. 1988, p. 299].

Monopolization firstly covered raw materials, fuel and producing lower-level manufacturing products sectors. Production conditions of these sort of products were little different in various companies and consumers as a rule not preferred the certain types.

On the other hand, high-level processing areas could hardly monopolized due to the extreme variety of products [Shasta I. 1991, p. 170]. For example, big electro-technical enterprises got agreement on a small number of dams for some special products in this period in Germany. As the differences on the technologies, values of the labor force and commercial methods estimated so high and companies were in different situation as a result of monopolization. Failed attempts for the creation of monopoly unions in other sectors of German machine building industry incurred due to this reason as well [Shasta I. 1991, p. 183].

The new wave of combining companies and absorption of one company by another led to the increasing the monopolization of production. This new wave of combination and absorption widely spread in USA in 1926-1929. This wave is varies with an increase importance of vertical integration equal to ongoing horizontal connection and absorption. This change on character and form of implementation of centralization capital process objectively reserved with the need

for expansion of specialization of production, to develop cooperation and combination within the vertical face of technology covering preparation of raw material production, primary processing of raw materials, various intermediate products and etc.

This served to create the necessary organizational and manufacturing floors for application methods of mass conveyor production and increasing role of vertical type of concerns. Powerful industrial complexes are being formed covering a wide range of companies associated with each other in a single technological stage. The basis of establishment of such complexes formed based specialization of fabrics forming complexes (on the object, on parts and on the technology) [Martynovsky S.V. 1985. 10, s. 75-79].

But development of concentration and centralization of production led to the collapse of the market self-regulation mechanism. This clearly reflected itself during the economic crisis of 1929-1933 years. “Great Depression”, laid for the foundation for intensive regulation of economy by the state in accordance with the recommendations of Keynes. Objective need of regulation of economy by the state, as a result have been created with the process of centralization of production in monopoly coalition. Considering that the economy was manipulated by competition with “invisible hand” of market the liberal ideas were considered outdated.

It was assumed that monopolization will grow louder in the second half of the twentieth century. However, subsequent events showed that these assumptions are not correct. Also at this time the increasing number of small enterprises which is an important factor of socio-economic stability in developed market economy countries was observed. The role of small business especially increased in 70s when the economic situation in developed countries worsened. For the first sight a strange economic event has been observed – unlike large enterprises small enterprises often could stand better to economic difficulties.

The enterprises which number of employees less than 50 created 12 million jobs in USA in 1974-1984. At the same time, the 500 largest corporations reduced 1.6 million workplace [Small and medium-sized business. 1991, p. 3]. The employment of the population in little industrial companies on average increased by 2.5% annualy in France on the second half of 70s, in average industrial companies this figure remained stable, in big industrial companies decreased by 1.2%. As little and medium-sized companies compensated reductions on big companies creating approximately 670000 workplace, big companies reduced more than by 200000 workplace in 1977-1985 in Germany [Small business in Western Europe. 1991.p.12].

The rapid development of small enterprises was continuing in the condition of economical renascence in the years of 80-90s. This condition showed that growth

of economical importance of certain economic sector is natural and long-term tendency.

The changes in production structure also forced development of competition. This is firstly related with leading direction of big corporation's renascence was diversification of production beginning with 60s years.

The objective basis of diversification is sudden destroy of production structure by scientific-technological progress. In this condition additional capital created in mature spheres is firstly directed to new spheres- high profit and speedy developing spheres. To penetrate this sectors not only scientific-technological base but also methods as absorption of operating companies is used. The diversification of corporations pushes all entities into competition.

The transnationalisation of big corporations which is objective reason of economical globalisation also plays an important role to boost the competition. The issue is not only of low developed countries' and transition economy countries' attraction to the process of international competition sphere but also empowering of competitive condition in local markets of developed countries. Governments of developed countries purposely use international competition as a tool of pressure to their monopolists to stimulate innovations and to increase effectiveness. Continuing and harmonized policy of opening developed countries' markets for

import of goods and services and encouragement of international competition created reasonable condition for empowering competition.

Substitutes which strengthened thankfully to improvement of transportation and telecommunication as well as use of accomplishments of scientific-technological development not played a little role to limit monopoly trends.

Empowering of competition gave back market mechanism the role of autonomous regulator of economic balance. Renaissance of market was an objective reason of neoliberal wave in economics and economical experience. Even in developed countries in the 80s states economic role was re-considered and reregulation of economy was begun.

In this way historical period is noticed in development of competitive relations. In middle ages' manufacture production system markets operating with artificial monopoly and no competition were noticed. In the next step of economical development market gradually decreases monopoly condition and enables competitive mechanism. Free competition becomes an invisible hand regulating the economy spontaneously. In this historical background economical liberalism conception formulates which advise government to minimise its market intervention.

XIX century becomes market economy operating on free competition basis. Becoming to the ends of XIX century destroy of free competition happens on quite

different economical basis - on the basis of centralisation process of capital and production. That is why restrictions to free competition in XIX century is quite different from those to manufacture system. Capitalism monopoly grows and develops not from regulations but from centralisation of production.

The state changes again in the last decade of XIX century. The strengthening competition results with improvement of market mechanism. Even economical liberalism doctrine begun to spread extensively which appreciated by Soviet Union. Economical regulations should be reviewed in the context of global tendency on competitive development and beginning of market relations in the economy.

The monopoly level in Soviet economy was quite high in comparison with high developed countries. At the same time monopoly in soviet economy was different in characteristic. Monopolist unions in market economy are formulated from “downward” on the basis of centralisation process of production and capital during competition. At this time public authorities try to ban over-strengthening of monopolist unions with the help of anti-monopoly regulations.

Monopoly structures are formed from “upward” in command-economic system. Public authorities didn’t restrict monopolisation; on the contrary they actively encouraged this process. Another important characteristic of Soviet monopolism is its horizontal integration. Entities producing homogeneous products

subordinated to head-office and ministry completely restricted intra-sector competition.

Command system causes over-centralisation of production in the level of enterprises and unions. As it is known effectiveness of centralised management systems based on administrative methods decreases relatively to number of managerial chains. By limiting number of these managerial chains ministries and administrations tries to combine some type of goods in a one or few enterprises, and included manufacturers of similar products into cooperation.

As a result economy became too monopolised. Goods in 1800s were produced only in a one enterprise or union, more than 1100 enterprise were absolute monopolist in production of certain type of goods in the beginning of 90s. 9 of 19 major type of Iron-pressing machines were produced in one enterprise, 6 of them in two enterprise and 4 of them in three enterprise. 80 % of fragile production combined in four enterprise and freezing camera production in three enterprise. 75% of production of small-sized televisions focused on 3 enterprises [V.V. Radaeva, AV Buzgalin. 1995., p 370].

Even centralisation level in the beginning of XX century wasn't as high as in the processing industry in developed countries. As mentioned above various quality of machinery products banned formulating of monopolist joints from

“downward”. And this in its turn doesn’t ban “upward” monopolisation that is inherent for command economy system.

In western countries vertical integration system, combination system, and especially diversification process of production destroys monopoly structures in many fields and contributes competitive relations which stimulate scientific-technological development. The anti-monopoly policy of government also is important in formulating and development of competitive relations. At the same time stable monopoly structure of Soviet Union was a key factor of technological drawback from its developed competitors.

Investigating impact of experience repeating western technology on soviet electronic industry M.Castels gives a questions: why repeating American electronic technology boosted Japanese economical development while it had quite negative effect on soviet economy. The answer is very simple: Japanese companies operated in free competition and Soviet companies operated in monopoly condition. the complex non-development reasons of the soviet military industry also is explained in the same way. Relative opennes for other American companies and Japanese electronic instrument and device producers prevent American electronic defence system sector from early decaying process. But, soviet enterprises operating in closed economic conditions and not stimulated for export operation and only appropriate to not very ultramodern specifications of Ministry

of Defence and aimed to produce goods are involved in technological trajectory retiring from public needs as time passes and innovation processes in the remaining part of the world [Castells, M. 2000, p. 457].

Administrative-command system couldn't stand for a long time under conditions beginning formation of market relations and a new periodical strengthening of competition beginning in the last ten years of XX century. This system destroyed with the "global wave". The monopolization created by Administrative-command system was the big factor which prevented transforming Azerbaijan to market relations and it's integration into the global economy. This non-compliance in this structure determined the depth of the crisis which is implemented by Azerbaijan economy in 90s and currently stifling its development. Creation of conditions for stable economic development in the XXI century implies gradually "clearing" of economy from artificial monopoly elements and neutralization of monopoly elements which are impossible to remove objectively.

Understanding the periodic nature of the development of competitive relations allows an appraisal compliance with global historical tendency given to the structure of economy of Azerbaijan and makes it available to understand the role of competition in development in economy more deeply in our days. And this, in it's turn, makes opportunity to understand well the competition policy in the role of reconstruction strategy of economy.

The competition in Adam Smith opinion – is “invisible hand” which is make people obtain total benefit, even each of these people try to obtain benefits from its own. That’s why, market economy based on operating general benefit of society and socially-oriented is not possible without sufficiently high level of development of competition.

Conclusion

Monopoly – is the source of difference between personal interest and total benefit. In terms of competition is removed the personal interest of entrepreneur is contradict with interest of society. This type of market economy was characteristic for the beginning of the XX century and was little more effective than soviet command system. Non-effective proof of this type of market economy was “Great Depression”. Though there was a big difference, the crisis of Azerbaijan economy in 90th certainly had general similarity with “Great Depression”. This general basis – is monopolistic organization of production. That’s why, formation of an effective competitive environment, reducing the private share of monopoly sector – is the main factor for stable and dynamic development of Azerbaijan's economy in the XXI century and it’s successful integration into the world economy.

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