Czego uczy nas historia gospodarcza?

12 ROZMÓW NA TRUDNE CZASY

Monopolies in the economy.

Discussed by Prof. Paweł Grata and Andrzej Pieczewski, Prof. University of Łódź

Pawel Grata: Good afternoon, welcome to another conversation in the series "What does economic history teach us? 12 Conversations for tough times", which is the result of a project funded by the Ministry of Science and Higher Education as part of The Social Responsibility of Science programme. The project is being carried out by the Department of Economic and Social History of the Institute of History at the University of Rzeszów. Our guest today is Professor Andrzej Pieczewski from the University of Łódź, with whom we will be discussing monopolies in the economy. In accordance with the assumptions of our project and our conversations, we want to present various important processes of economic phenomena from the perspective of history, from the experience of economic history, but at the same time we want to show how these experiences influence our contemporary economic reality and how they can influence the future. With the Professor, we are going to talk about monopolies, a phenomenon that is quite strange in a market economy, because it arose in the liberal economy and at the same time it harms the free market. What is a monopoly, Professor?

Andrzej Pieczewski: In the simplest terms, a monopoly is a situation in which we have one supplier on the market. This is such a model definition. In practice, we speak of a monopoly if a company holds the majority of the market. There are two concepts associated with monopoly. Barriers to entry and product differentiation. Barriers to entry are all factors that make it difficult for the dominant firm's competitors to enter a given industry. This is because, among other things, the products are heterogeneous, differentiated, and the company producing them is then more likely to be able to set prices. Perhaps I should immediately contrast this notion of monopoly with that of competition. In fact, in economic theory we have this notion of perfect competition. This is, of course, an imaginary situation where we have an infinite number of suppliers, producers, and an infinite number of customers, consumers, in the market. The price is then set by the market, there are no brands, products do not stand out, they are homogeneous. Then, as I said, the price is the result of the game of supply and demand and neither of the parties, neither producers nor consumers, have the possibility of regulating it, imposing it, etc. This is, of course, a model situation, the reality is a little different, there are not an infinite number of producers, we have brands of different products, and of course we have a situation, and the modern market is an example of this, where in many, many industries certain producers dominate.

When did monopolies emerge in the economy? In this sense, of course, of the term.

Yes, because we can go back to the Middle Ages and say that, for example, merchants' guilds or artisans' guilds in cities were such price-setting monopolies. However, when it comes to the modern, more capitalist economy, monopolies emerged in the last quarter of the 19th century. Until then, we have been talking about a free-competitive economy, where we have a very large number of producers and, as Professor Warmus pointed out at the beginning, paradoxically, within this free market, certain processes have led to the emergence, or are emerging, of leaders in specific industries who dominate a given industry, a given market, and are beginning to control that market. By this I mean simply imposing a price. Because, I might add, in this situation of free competition, both the company and the consumer are price-takers. The price is determined by the play of supply and demand. In a monopolised market, it is the enterprise that dictates the price, it is the price-maker. And then, of course, it can do more. Usually, it raises the price, it lowers production, it is at that point, in that situation, a natural practice, and it gains so-called monopoly profits. What loses out is the consumer, that is, us, because we pay much more for the product than we would if the industry from which the product comes operated in a competitive market, without leaders, without dominant companies.

You said that monopolies emerged in the late 19th century. How did this happen? How did this happen?

I am already explaining. Let me give you an example. Imagine a country the size of Poland. We have, let us say, 100 shoe manufacturers. It is the 19th century. Small, medium-sized factories. The price is then given by the market. Companies compete with each other, they compete on price. There is pressure to reduce costs, to lower the price, to win customers. It is a murderous battle in the market. In the process, some companies collapse, stronger ones take them over and they become bigger and bigger, until time passes and the same country, in 30 years' time, which is the end of the 19th century, has five shoe manufacturers. And let's assume that they continue to fight, to wage price wars with each other, until finally they come up with the brilliant idea that it's better to get along, to put it very colloquially. And we are dealing with price-first agreements. Such a first-price agreement is the cartel, where the lowest selling price was set, that is, already this price was imposed on the consumer, on the market, then how cooperation

And we add that the participants ... They declare to each other that they will not sell shoes cheaply.

Yes, that is the basis of this price collusion, that below this price none of these producers would go. If the cooperation went well, no one left the cartel, the cartel worked, it was profitable for everyone, I mean the producers, not the consumers of course. Monopolisation went further, namely the establishment of a syndicate, i.e. already a joint sales office, the sharing of markets, or even in terms of capital, these enterprises exchanged, bought shares in each other, slowly becoming one enterprise. Then we have trusts, where enterprises are more closely linked, then holding companies, where there is already an owner, right?

Common owner for all businesses.

Well, and finally we have the conglomerate, where it is already definitely one big company, one owner, although the individual companies may have a separate legal personality.

They may have different names, but....

Yes. And it was this process, one might say paradoxically, and I am not confusing terms here, of the market, i.e. of competitive struggle, which leads to the strongest winning and the strongest growing stronger, that led, in the last quarter of the 19th century, to free-competitive capitalism shifting seamlessly into monopolistic capitalism.

Where did this process develop on the largest scale? In which areas?

This process obviously developed where capitalism developed, namely Western Europe and the United States of America. Such a very popular example is David Rockefeller's company, the Standard Oil Company, a company that extracted and traded, distributed oil. Rockefeller gradually bought up such similar companies until he came to rule over 90% of the oil market in the United States.

And the process of monopolisation, which has been going on for several decades, is indeed beginning to threaten the free market. Because if there are more and more of these monopolies and cartels, here one could mention the German example in Europe. United Germany is a state of cartels that monopolise more and more markets. What happens next? It is easy to imagine that this process could lead to the total elimination of the market.

Yes. And this process was noticed, of course, not only by consumers and by the fact that they have to pay more for products that, as I said, would be much cheaper if they came from the free market. This was noticed by economists and already from the end of the

19th century antitrust laws were introduced. The state felt the need to interfere in what these huge enterprises were doing, to control them, to control the prices of their products, to control whether they were ripping off customers too much, to control the mergers of enterprises, so that there would not be these giants, because they really do have enormous economic power and influence politics very much. As you mentioned, Professor, Germany just at the time when Hitler was coming to power and then these links of power and politics and business of this big monopoly were close. This is why the state and economists are well aware of this, and so-called anti-monopoly laws were introduced from the end of the 19th century, first in the United States and then in other Western countries, in order to protect these monopolistic practices, to protect consumers and to protect the free market. After all, we all know that the free market has extremely good properties for the economy. The first antitrust law, such is the most popular Sherman Act of 1890, was of course the United States. Today, every western country has a suite of antitrust laws. In Poland, there is now the Competition and Consumer Protection Act of 2007 and we have an antitrust office so-called UOKiK, the Office of Competition and Consumer Protection.

The state of affairs today is quite stable in this respect, because we also have European regulations, and national regulations must be consistent with them. However, I would like to ask a question: the Sherman Act and other legislative acts of the late 19th and early 20th centuries, were they effective?

Certainly, Professor, they did not restore the free competition of the mid-19th century. There has been no return to that and there probably won't be. At present, markets are highly monopolised, or strictly speaking polyopolised, as a situation of pure monopoly is rare. On the other hand, it is very often the case that a given industry or market is dominated by several companies, and this is the case in almost every area of the market.

And this process also started a long time ago, because this is the turn of the 19th-20th century, when the big corporations are even dividing the world markets among themselves.

Of course, of course. I was talking, perhaps I will allude, I was talking about the disadvantages of monopolies from the point of view of the consumer, that is, we pay more for these products. Monopolies, on the other hand, have one advantage. Because of the huge concentration of capital, it is within them, within these companies, that technological progress is now taking place. That is to say, technology, high technology, will and does and will probably be associated precisely with big capital, with oligopolistic markets, big enterprises.

Because research requires a lot of resources.

Yes.

Again, we are going back to 19th century Germany, where the great emerging German corporations of the time, or German cartels, were setting up large laboratories. Germany is where serious research began at the interface between business and politics and science. R&D is a German invention I think and the invention of monopolies.

I would say yes, spontaneous American, and such a slightly under-control German, as German tradition dictates and has dictated.

In the 20th century, in addition to the monopolies of these private monopolies, state monopolies have played a large role at certain times. Where did this come from? We still have a market economy.

Of course. Yes, yes. In terms of types of monopolies in general, we have focused on those monopolies that arise naturally in the bosom of the market economy, but there are also natural monopolies, for example, the water utility in a city. These are areas where it is naturally better for everyone if one company serves a particular industry, a particular service. There are state monopolies, as you mentioned. In this case, the state, for some reason, either to ensure its treasury revenues or to control strategic areas of the economy, decides to monopolise this area in the form of either nationalising this or those enterprises to its full control, managing them, or simply giving a monopoly to some enterprises for some production or service. Here a great example is interwar Poland, where the State Treasury, in order to ensure itself some income, already in 1919 established a spirits monopoly, then a tobacco monopoly, a lottery monopoly, there were a lot of these monopolies, a match-making monopoly.

The salt monopoly as well. And here it is also worth mentioning that this involvement of the state in the monopolisation of the market was partly the result of the war economy, because we have the First World War, where the state tries to concentrate its activities for war-making purposes, and we have the Second World War, where it looks very similar. An example of yet another monopoly. Well, we will come back to those monopolies which are the result of the free market, but we have, after all, the states of the real socialist economy. Here, too, monopoly seems to have become something natural.

Yes, yes. Here the monopoly on the management of the economy, to say the least, was taken over by the state. The state gave up altogether, the socialist state acting in accordance with Marxist doctrine, which considered the market to be evil, great, the market was eliminated, or attempts were made to eliminate it completely, and the monopoly on the management of the economy was taken over by the state, through central planning, through price and wage regulation. By the fact that industry was nationalised, that is, the state became the owner of the means of production, fortunately it was not possible to collectivise agriculture, but only in Poland, we were an exceptional country.

And it's interesting too, because on the one hand the market was being rejected, while on the other the state was creating monopolies virtually the same as in the market.

Yes, yes. This is astonishing. I'll even go back even further, as far as socialism is concerned, to the Soviet Union, that the Soviet enterprises that Lenin and then Stalin built were copying American mass production, that is, these big socialist combines here were modelled precisely on American corporations, that is, concentration of production, mechanisation, automation, assembly lines.

But also a barrier to entry into the market. No one could enter this market because the state decided what we would produce, where we would produce and what the market allocation would be.

And for whom, yes.

And for whom, in other words, it is full monopolisation. But let's go back to the market economy, which is closer to us and in which we live. You mentioned, you signalled, perhaps in this way, these differences between the monopoly of the 19th century, or the beginning of the 20th century, and the monopoly of today. Maybe let's elaborate on that. How these modern monopolies function, bearing in mind that there is a law on monopoly salts.

Above all, those 19th century and 19th century monopolies, I should say, were still learning. We are now at the stage of a mature oligopolistic economy. The concentration of capital in these enterprises is even greater than in the 19th century. We may not even realise it, but we really have different companies with different legal personalities in different fields, industries. To the consumer it may seem that they are competitors, and sometimes they belong to one owner, and the competition is apparent. Suffice it to say

an example from our country 90-plus percent of the market for a beverage like beer belongs to three concerns. 90%, more than 90%. But it is the same in other food markets too. I do not mention the markets for advanced electronics. These are very polygopolised markets. For example, processor manufacturers - basically two or three companies count. Intel makes processors, AMD makes processors. This is the majority of the market worldwide. Processors for small devices, which is our smartphones, it's Samsung basically. Cars. We have a lot of brands, concerns several. Also this concentration of production, the oligopolisation of the market is huge.

And here it is also worth mentioning that it is often a long process, because while processors, well that's maybe a shorter history, whereas the car market, here we have a famous German concern that has many different national brands, so to speak, but they have also existed for a very long time. Yes, yes, yes. And here the question also arises, what next? Because despite the fact that we have regulations, despite the fact that if Orlen takes on PGNiG, well, there has to be the consent of the relevant national and European instances, but it takes them on anyway, well, possibly it will sell a few hundred stations to someone else, still this process is progressing. We are increasingly talking about the fact that large concerns, large oligopolies are more powerful than some countries.

Yes.

They have extraordinary political influence. What will happen next, Professor?

Of course. You raised the very important issue of this political power, literally political power, of corporations, of the possibility of influencing politics that they have thanks, of course, to the enormous money, the enormous capital that they have. I do not want to make any predictions here, but I will say this: the future, the development today is, of course, linked to high technology, to advanced technology. These, in turn, are correlated with enormous capital, so here we probably cannot avoid the concentration of production, the concentration of capital. It is precisely these regulations that will be important, simply to somehow curb their power, not only economic power, but the power they have, the influence they have on the world of politics.

Because it can look a bit, and not just look probably, that these regulations, the institutions that act on this anti-monopoly, are really just powdering reality a bit. Whereas the real impact is little on what happens.

Yes, it will certainly be difficult to oppose this phenomenon. Of course regulations are needed here, first tested in countries that are also the most advanced in terms of civilisation, but we will certainly not go back to that idyllic, typically free-competitive capitalism of the 19th century.

In which it was the consumer who decided, whether or not to buy certain products. We talk about the media as the fourth power. Are monopolies the fifth power?

I don't think it is loud about this power, but it has a significant impact on what is happening in the world.

Especially as this concentration is also very high in the media world. Thus, when analysing the emergence and further fate of monopolies, we come to rather pessimistic conclusions, Professor. Or do you see it differently?

Let me not judge. Well, it's just ... It simply is what it is. Governments have to and we consumers have to monitor the situation because, on the one hand, of course oligopolistic markets are not good for us consumers, definitely. On the other hand, as I think I have said twice here, technological progress is taking place precisely within these large corporations. They have the money for research and development. So, without them, this progress would not be what it is now.

In summary, then, one could say that the price of progress, the price of the fact that we are living better and better, that we are living more and more modern lives, that we have access to more and more sophisticated technology, is further monopolisation.

Yes, yes. Even in the age of digitalisation, in the age of the Internet, in the age of big data and artificial intelligence, these areas of monopoly may even move, so to speak, into the realm of the Internet. Anyway, we already have this situation. Facebook, Instagram, etc. Platforms that will be used by hundreds of millions of people around the world. These platforms are able to collect a lot of data about users. This in turn allows for certain predictions of consumer behaviour. So that we are increasingly no longer choosing as consumers.

Are we being led?

Or perhaps such conspiracy theories I wouldn't spin here until. But of course, these big corporations have an influence in creating our tastes or needs.

Later on, we ourselves no longer know whether these are our decisions or suggested. Thank you, Professor, for talking to us about monopolies. Maybe we will meet in a few decades and talk again.