

Anna Fornalczyk, Witold Kasperkiewicz

DEMONOPOLIZATION OF THE ECONOMY - ASSUMPTIONS AND PRACTICE  
IN THE PERIOD 1981-1983

1. Is the thesis about monopolization of the economy in socialism justified?

The organizational structure<sup>1</sup> of the Polish economy in the late seventies was a result of a long process of concentration of the economic activity /production and services/ and centralization of management. Can it be identified, however, with monopolization of the economy? Theory of the political economy of socialism does not provide an explicit answer to this question.

In the theory of the socialist economy functioning, the problem of monopoly has been dealt with quite extensively.<sup>2</sup> While describing the actual situation in the concentrated and centralized economy there was applied a concept of "complete exclusiveness of production of one enterprise". This concept referred also to concentration of production and centralization of management within the framework of the industrial amalgamation. The term "monopoly" was treated as a proper one for other /.../ nonsocialist production relations.<sup>3</sup> Assessment of the rightness of this approach depends on interpretation of the very essence of socialist production relations and on results provided by analysis of situations occurring in the practice of the socialist economy and accompanying "complete exclusiveness of production of one enterprise" /this problem will be discussed in greater detail further on/.

Another approach to the problem interesting us is identification of concentration of the economic activity and centralization of management with monopolization of the economy.<sup>4</sup> It is worth noting here that concentration of production, concerning the sphere of manufacturing, may but does not necessarily have to be synonymous with a monopoly. This term refers to the sphere of widely understood exchange

/relationships between enterprises and their environment/.

In the market economy, the main prerequisite in attempts made by enterprises to attain a monopolistic position is their desire to become independent of their environment and, what is more, have a possibility of exerting influence on this environment. It can be assumed theoretically, however, that the producer's monopolistic situation /exclusiveness or predominance of a given product in the entire production/ does not make him conduct a monopolistic policy /cutting production, raising prices, checking progress in innovation activity, and reducing costs of production/. This may result e.g. from monopolistic competition, possibility of a given product's entry into the market, application of competitive imports, or legal prohibition of application of monopolistic practices.

Yet another situation may be assumed here and, namely, the the monopolistic policy does not result from concentration of the economic activity but is a consequence of regionalization of outlets and/or incomplete information provided for buyers about possibilities and terms of purchasing.

A basic condition for joint appearance of the monopolistic situation and monopolistic policy is deciding by the producer-monopolist about: volume and assortment structure of production, methods of manufacturing, sources of procurement of industrial supplies, directions and prices of selling, and utilization of realized income. In the system of macromanagement through directives, producers do not have such rights. Hence, the term "monopoly" may seem to be inadequate for description of the effects of concentration of economic activity and centralization of management.

From the formal point of view, we can speak about the state's monopoly in the economy.

Concentration of production /real sphere/ is favourable, however, for formation of groups of interests /branch or sectorial/, which initiate a mechanism of covert bargaining about tasks and resources /regulatory sphere/.<sup>5</sup> Effectiveness of this mechanism is largely dependent upon production exclusiveness or domination. Producers-monopolists are - as it is assumed in the command-type system - independent of the market environment while their exclusive or dominant

production position creates favourable conditions for them to become independent of the environment created by the central planner. This dual autonomy of the producer-monopolist causes that also in relation to the traditional macromanagement it is advisable:

- to analyze economic process from the viewpoint of causes and effects of monopolistic tendencies,
- to explain principles of operation of monopolies in the traditional macromanagement system, which differ in their form and content from principles of their operation in the market economy /exclusively covert and informal character, absence of classical forms of monopolistic competition/. By way of distinguishing between them we propose a name: bureaucratic or administrative monopoly.

Replacement of the traditional macromanagement with a system based on predominance of indirect methods liquidates, in fact, conditions for existence of the administrative monopoly but it also creates conditions for formation of market monopolies. This is promoted, first of all, by a high degree of concentration of the economic activity /monopolistic situation/. Consequently, one of basic assumptions of the reform concerning demonopolization of the economy is fully justified. Our interest here is focussed on the assumed and carried out changes in the sector of the state ownership as we proceed from an assumption that organization and principles of activity binding in this sector are of decisive importance for the functioning of the entire economy.

## 2. Reorganization of the economy in practical introduction of the reform

Institutional and organizational changes in the economy were accepted to be the first stage in introduction of the reform in its assumptions. These changes were to be comprehensive i.e. they were to encompass all levels in the management structure of the economy.

Legal regulations explicitly defined organizational changes to be performed at the intermediate level /i.e. of indus-

trial amalgamations/, and - less explicitly - those at the level of enterprises. The legal regulation did not encompass the organization and principles of operation of the central economic administration /if we omit here quite formal changes carried out in mid-1981, and consisting in reducing the number of branch ministries from 11 to 6/. Experience gained by economic reforms in Yugoslavia and the Hungarian People's Republic shows that changes in organization and principles of operation of the Centre are an important element in the economic reform. This is especially significant as regards liquidation of administrative monopolies.

Hopes connected with demonopolization of the economy through decentralization of rights and competences to dividing the existing enterprises, and especially multi-plant enterprises - were not fulfilled. The following causes were at work here:

- division of an enterprise requires, in fact, an approval of the workers' council but it is called by the organ which founded the enterprise, and which organizes the preparatory procedure. Quite few efforts made in this direction by multi-plant enterprises and industrial complexes in the second half of 1981 did not find approval of the founding organs.<sup>6</sup> The argument most frequently advanced by them was to avoid excessive deconcentration of production.
- from the point of view of enterprises' interests creation of competition represents an undesirable situation as it increases the element of risk in their activity.
- all efforts made in this field were checked the moment the activity of workers' self-management organs was suspended on 13th December 1981. Later legal regulations concerning their activity and a general socio-political situation in Poland caused that workers' self-management restricted the range of its interests to internal affairs in enterprises.
- all undertakings in the field of reorganization constitute one of essential elements in the enterprise's operational strategy. Elaboration of this strategy calls



for relative stabilization and possibilities of predicting conditions of the environment in which the enterprise operates.

The practice shows that the most radical changes were made at the intermediate level. Liquidation of amalgamations /with the exception of 29/ began as from 1st January 1982. The Act on State Enterprises envisages that enterprises may - in economically justified cases - set up their voluntary associations. Boards of these associations are not superior units in relation to enterprises. In special cases, the Council of Ministers, after consulting an appropriate parliamentary commission, may establish obligatory associations for a period not longer than 5 years. In 1981, many enterprises initiated preparatory works for establishment of voluntary associations. These works were interrupted when the martial law was imposed. Almost all associations were set up in 1982. They were formed without participation of employees' self-management bodies, whose activity was suspended during this period.

Studies<sup>7</sup> on formation and operation of voluntary and obligatory associations of producers afford the following conclusions:

- membership in associations is of a common character. Instances when enterprises remain outside associations are quite unique just like membership in more than one association;
- associations - voluntary and obligatory - are of branch character and they duplicate almost exactly the structures of former amalgamations. Exceptions to this principle are few and far between;
- analysis of formal and actual objectives of their activity shows that enterprises treat associations, first of all, as institutions increasing their bargaining power in contacts with their environment /industrial supplies, buyers, bank, central and local economic administration/;
- from the point of view of monopolistic trends, there are important such goals of activity as: ensuring raw materials and materials supplies for associated enterprises /monopsony/ and common policy of selling prices and division of sales markets /monopoly/;

- in practice, there were formed various types of associations from the point of view of restricting production and economic autonomy of associated enterprises. It should be added here that it does not always coincide with division into voluntary and obligatory associations;
- organizational form of association and objectives of their activity result from the following prerequisites: their hasty establishment in the first half of 1982 with a visible intervention of branch ministries and with no participation of self-management organs, application of organizational continuity between liquidated amalgamations and newly-established associations of producer /offices of ministries' plenipotentiaries for determination of production systems established by employment of managerial cadres from liquidated amalgamations/, habits developed by the managerial cadre to operate in a definite economic system, preservation of central allocations of basic raw materials, materials and a considerable part of hard currency resources, as well as discretionary character of relief granted enterprises in financial deductions to the state budget /sphere of activation of covert bargains/.

The above results testify that hopes for a partial demonopolization of the economy through liquidation of amalgamations were not fulfilled. Enterprises, however, should not be blamed for such situation as voluntary associations are to protect interests of enterprises /such was the assumption behind their formation/. Monopolistic associations of enterprises serve just such objective. It is worth adding that obligatory associations are of branch character as well. The central economic administration, while introducing the reform, does not give a good example of organizational changes. Moreover, associations were formed in the situation characterized with absence of legal regulation protecting the economy against monopolistic tendencies. It should be stated, however, that effectiveness of such regulation may be actually limited if the state's economic policy favours creation of monopolistic situations and practices /bureaucratic or market monopoly/.

### 3. Economic dilemmas of antimonopoly policy

Strong monopolization of market structures and lack of definite conditions for operation of competitive relations may efficiently block proeffectiveness mechanisms in the economic reform. Elimination of harmful monopolistic structures is one of prerequisites of proper functioning of the market and launching of a mechanism of competition /envisaged in the draft of the reform/ aiding directional stipulations of the central plan. Proper functioning of the price system /including, first of all, contractual prices/, positive influence of the self-financing principle on effectiveness of economic management, protection of enterprises' autonomy in the sphere of wage policy and assortment of production largely depend on the success of efforts aimed at demonopolization of the economy. Otherwise, it will be difficult to guarantee protection of consumer interests and create strong stimuli for innovation activity and improvement of production quality.

In discussions on demonopolization of the Polish economy, there is often formulated a question - is it possible at all to launch the mechanism of competition in conditions of deep market disequilibrium? Some economists are very skeptical as regards possibilities of competition in conditions of a huge surplus of demand over supply.<sup>8</sup> They claim that antitrust legislation will not be able to protect competition in the situation of the seller's market. Competitions means, first of all, rivalry among enterprises consisting in striving to expand outlets for their products. On the other hand, today we have rivalry among buyers seeking sources of purchasing goods.

We should agree with a thesis that the buyer's market is a basis for effective operation of competition. This is an obvious thesis. The question should be reversed, however, and it should be: will it be possible to restore the market equilibrium without some even modest signs of competition? Empirical observations tend to confirm a conclusion that preservation of monopolistic structure hinders creation of the buyer's market even when productive capacities in a given field equal or even exceed demand.<sup>9</sup> Reconstruction of the market is often impossible not for objective reasons /e.g.

deficit of productive capacities/ but for subjective reasons, which are monopolistic structures created by the centralized system.

Formulation of a socially and economically rational antimonopoly policy is a difficult task, and particular elements of this policy are an object of controversial evaluations. This results primarily from the fact that the influence of monopolistic structure on the economy is not uniform in the sense of effectiveness of economic management, interest taken in innovations etc. Hence, it is of utmost importance to determine possibly precisely the scope of demonopolization of the economy taking into account minuses and pluses of monopolistic structures and their existence. This problem may be presented applying concepts of upper and lower limits of demonopolization.

The upper demonopolization limit is such its scope the surpassing of which might cause loss of possibilities allowing to promote effectiveness connected with existence of monopolistic structures. Their advantages include, first of all:

- economies of large scale production in its technological aspect;
- economies of large scale in its economic dimension being expressed in high effectiveness of calculations and decisions in concentrated structures;
- stability of contractual prices in the situation of predominance of oligopsonic structures.

The lower limit of demonopolization or, in other words, minimum scope of demonopolization is such its scope, which allows to launch a competition mechanism. Enterprises holding their monopolistic position, being not threatened by external pressure, do not show sufficient propensity to technical and organizational innovations, and to introduction of new products into the market.

Relative ease, with which monopolistic units can accomplish their own goals by unilateral determination of terms of their cooperation with the environment being favourable for them /prices, assortment/, weakens their interest in rational



utilization of their resources and in changes in the structure of production adjusting it to the structure of buyers' needs.

#### Areas and instruments of antimonopoly policy

Among the main activities of economic organizations within the framework of their monopoly policy are: tendencies to formation of monopolistic structure of markets, practices restricting competition, and fixing of prices.

The structure of markets is determined by principles of founding, merging, developing, buying out, splitting, and liquidating enterprises. It constitutes the most essential and the most effective area of antimonopoly operations due to:

- firstly, the fact that in the system of socialist economy, the structure of markets constitutes an important area of the state policy; and
- secondly, the fact that control of the structure of markets undermines monopolistic practices.

In the centrally managed economy, effectiveness in fighting monopolies depends mainly on solutions on the macroeconomic scale as an especially strong source of monopolistic tendencies lies in branch ministries, which through their decisions may promote strongly concentrated structures.

The policy of shaping market structures must be based on elastic rules reflecting specific features of particular sectors of the economy. Protection of competition, through application of a structural approach, should be conducted in these economic branches where existence of concentrated structures cannot guarantee improvement of effectiveness of economic management /especially in consumer-goods industries/. A different policy should be pursued in these branches and systems e.g. vertical where a high degree of production concentration is economically justified. In these areas, it is reasonable to preserve monopolies and even protect them applying a regulatory approach.

From among diverse instruments of the antimonopoly policy concerning formation of markets structure, we can distinguish command-type instruments and non-command-type /indirect/ instruments.

Command-type instruments → characteristic for the structural approach-encompass:

- legally guaranteed right of veto of the state organ on projects of merging enterprises, establishing new enterprises, purchasing enterprises or forming associations of producers;
- legally guaranteed right of ordering division of enterprises or dissolution of associations.

Without negating here the importance of command-type instruments in their control of market structure, higher effectiveness should be attributed, however, to non-command-type instruments. Among these instruments, the most important role is played by the following:

- struggle for balancing the economy and systematic abandoning of relics of the former system based on commands and centralized allocations;
- socialization of control over enterprises consisting in transfer of rights of the founding organ in the field of supervision to the supervisory board. It would allow for a change of relationships between enterprises and their founding organs, which, and especially branch ministries, are a source of monopolistic tendencies;
- rebuilding of the banking system consisting in commercialization of deposit banks and weakening by all means the monopolistic position of banks in relation to enterprises;
- cancellation of various formal constraints in access to particular manufacturing branches and autonomous determination of the object of their activity by enterprises. This principle cannot concern some branches and types of activity requiring protection by the monopoly law /eg. branches of technical infrastructure/;
- stimulation of innovation propensity in operations of enterprises, especially in the sphere of developing new products.

Classical symptoms of monopolistic restrictive practices are price agreements and market segmentation. Restrictive practices are undertaken in order to obtain control over the

market without a full organizational monopoly and elimination of competitors - thus, they are characteristic for oligopsonic structures.

A basic type of instruments countereacting such practices are commands. Among them, the most important role is played by a legislative ban of monopolistic agreements with regard to price-fixing and market segmentation, as well as agreements including terms of selling and buying, volume of production, creation of barriers to market entry by other economic units. Prohibition of restrictive practices should encompass big enterprises, associations and other groupings of enterprises both voluntary and obligatory. In the light of the past negative experience provided by functioning of associations, there should be stopped restrictive practices in the form of refusal to approve of the foundation act of an association, which introduces elimination of competition to the goals of its activity. Restrictive activities of associations irreconcilable with their approved statutes would be interpreted as violation of law and would be subject to persecution and sanctions.

Analysis of the economic life proves that regulation of enterprise structures and fighting restrictive practices not always protect effectively the social interest against a harmful activity of monopolies. In certain economic branches controlled, for reasons justified by technological and economic prerequisites, by monopolies and oligopolies fighting restrictive practices reveals insufficient effectiveness. Hence, it is necessary to reinforce these activities by means of price instruments, or more precisely by intervention through commands into pricefixing.

A fundamental principle of this intervention is elasticity in application of directive pricing settlements determined by the market structure character /full monopoly or oligopoly/. Interference in pricing produces not only positive but also negative effects. Control of pricing through commands may lead to loss of their elastic quality and, thus, their ability of balancing market segments. Moreover, due to methodological barriers intervention through commands cannot solve the dilemma

of non-parametric character of prices caused by monopolization.

According to features represented by specific monopolistic systems, there may be employed different forms of price intervention. In some systems, it is necessary to employ official prices /full monopoly/, while in others /oligopolies/ regulated prices or a combination of official and regulated prices. It is also advisable to employ in chosen areas controlled by oligopolies price intervention limited to one or two enterprises, imitating the mechanism of leadership prices.

In exceptional cases, it is possible to apply non-command manipulation of pricing in the form of the so-called "counterspeculation" i.e. a system of the state reserves, purchases and sales by intervention.

The command-type instruments of the antimonopoly policy presented here must obtain a form of legislative regulation equipped with appropriate sanctions imposed on economic units violating definite prohibitions. Both enterprises, social organizations, and individual citizens should be entitled to seek compensation for losses suffered due to illegal monopolistic practices.

Implementation of the antimonopoly policy and enforcement of the antimonopoly law make it necessary to establish a special institution equipped with proper powers and enjoying a high social prestige. Such conditions would be met, for example, by Antimonopoly Office protected directly by the Parliament, which would appoint a director of this office. Accordingly, it would be an office independent of the state administration organs. An argument in favour of this proposition is the fact that the primary mission of the antimonopoly policy becomes prevention of centralized monopolistic trends promoted by branch ministries.



## References

1. We propose that a distinction should be made between the organizational structure of the economy and its enterprise structure as not every organizational unit is an operating enterprise if it simultaneously does not self-finance its activity, does not realize an economic surplus, and does not make economic decisions.
2. See: J.A. Kronrod, Principles of Political Economy of Socialism /in Russian/, "Mysl", Moscow, 1975, p. 384.
3. We propose to use the term macromanagement to describe methods of the Centre's influence on the remaining elements in the organizational structure of the economy ensuring convergence of their activity with goals of the central plan. Macromanagement functions include: central planning, organizing, steering, controlling.
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5. B. Gliński, Management of the Socialist Economy. Logic of Progress /in Polish/, PWE, Warsaw 1980, p. 251.
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8. B. Haus, N. Karaś, J. Lichtar, Disintegration of Intermediate Organizational Structures in Selected Industrial Branches /in:/ Association of Enterprises in the New Management System /in Polish/, IOZ i DK, Warsaw, 1982, p. 33.
9. A. Cylwik, Aims and Forms of Economic Associations /in:/ Association of Enterprises..., op. cit., /in Polish/; B. Miedziński, Some Truth about Associations /in Polish/, Życie Gospodarcze, No 26, 1983; Analysis of Introduction of the Economic Reform in Industrial Enterprises /in Polish/, Report on studies, Lodz 1983, Zielona Góra 1984.

Anna Fornalczyk, Witold Kasperkiewicz

**Demonopolizacja gospodarki polskiej - założenia i praktyka  
w okresie 1981 - 1983**

Autorzy zastanawiają się, czy teza o monopolu w gospodarce socjalistycznej jest uzasadniona. Odpowiadając na to twierdząco rozróżniają Oni pojęcie monopolu biurokratycznego i monopolu rynkowego. Wdrażanie nowego systemu ekonomicznego prowadzi do likwidacji monopolu biurokratycznego, ale powoduje powstanie monopolu rynkowego. Wskazaniu negatywnych konsekwencji monopolu towarzyszy wywód o konieczności demonopolizacji gospodarki. Dotychczasowa praktyka wdrażania reformy gospodarczej nie spowodowała jednak odpowiednich zmian instytucjonalnych i organizacyjnych tworzących warunki dla realizacji tego postulatu. Znaczna część opracowania poświęcona jest analizie obszarów i narzędzi polityki antymonopolowej.