POLITICAL AND ECONOMIC DECISIONS AND COMPETITION: WHAT IS AN EFFECTIVE ANTI-MONOPOLY POLICY?

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ABSTRACT

This article discusses the influence of economic decisions which affect the antitrust and competition support policies. Many countries provide governmental initiatives for improving antirust legislation. There is an effort to develop efficient legislation, to define market boundaries, to identify dominating companies, and to prevent cartel development. A review of the literature has shown that refined legislation does not work. Qualified and non-politicized economic decisions are required to provide fair and equitable competition in the marketplace. The discussions of various researchers are profiled on the economic issues. This article analyzes The Republic of Georgia's 20 year unique market experiences in Eastern Europe. Recommendations have been proposed to increase the effectiveness of an anti-monopoly policy.

Keywords: competition, Georgia, anti-monopoly policy, communications market, insurance market.

INTRODUCTION

In order to sustain a viable economy, a competitive market, and boost competition, countries should establish unbiased laws. Current economic practices show that there are some markets where the independent operations of market policies are inefficient. The government has to play a major role in these sectors to ensure market efficiencies.

Milton Friedman, a representative of the liberal economy school, says one of the functions of the government is to ensure a competitive environment when market dominating companies try to develop monopolies. He also notes the monopolistic state may be misused after "indirect interference" by state officials Milton (1982). Political and economic decisions play a major role in economic and competition policies. According to economic experts, regulations are required to protect consumer interests and security. But, sometimes the regulations become oppressive and market activity is overregulated. The main problems for the free markets come from these types of situations.

PROBLEM DEFINITION

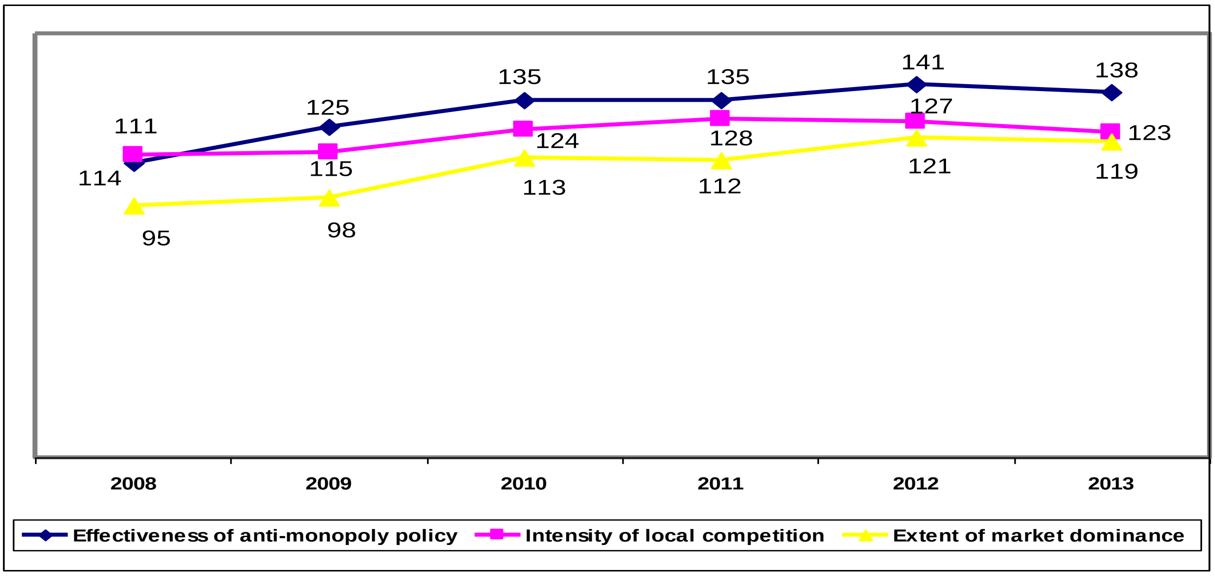
Today the world's developed and developing countries are trying to create legal and regulatory rules to analyze the process for creating dominant market positions by various economic agents. Governmental regulators are trying to prevent the misuse of these monopolistic situations. They are exposing the attempts to restrict market competition and they are establishing a free enterprise system. The Republic of Georgia is a special example in Eastern Europe and the Post-Soviet era. Georgia's economic system provides extensive examples for the study of competition policy and analyzing cases. From 1996 to 2005 Georgia implemented antitrust laws. But its economic markets did not have free competition. Competition was also restricted in some markets. There were privileged and unprivileged companies, cartel collusions, and corruption schemes. These problems came from the antirust sector. From 2005 to 2013, Georgia did not have an anti-monopoly service and the problems with monopolies and cartel collusions remained very troublesome.

Monopolies and dominating market positions were derived from "formal" and "informal" support by state officials or governmental sectors making political decisions. The presented Georgian cases focus on these issues.

This author concluded that the effect of political and economic decisions in Georgia was very demonstrative on the economic sector, despite attempts at liberalization. As a result, the market place has deteriorated because the competitive processes were being ignored. The current economic development model favored major corporations. By ignoring a fundamental process of the market model, a number of problems in the long-term have come to fruition. These problems have hindered the development of a free market economy and the achievement of public welfare. The economic system has ignored the value of free market competition as a fundamental market element of the economic policy. As a result, the economic security of the Georgian society is suffering from extreme stressors.

The economic security of Georgia has become a main focus of this research. The optimization of the competitive environment has become a necessity to meet the economic development needs for the public welfare.

Table 1. The Dynamics for the Evaluation of Georgia's Anti-Monopoly Policy. Efficiency by the Global Competitive index 2013-2014



Source: http://www3.weforum.org/docs/WEF_GlobalCompetitivenessReport_2013-14.pdf

ANALYSIS OF RECENT RESEARCH AND PUBLICATIONS

A review of the literature depicted several studies which discussed anti-monopoly regulation issues. The research explored the necessity of competition support and an anti-monopoly policy Massimo (2004). This author expressed the need for regulations for market efficiency, conducting a market analysis and the creation of various methods for the definition of the market's boundaries. The research of American liberal scientists Milton Friedman and Paul Heyne contained interesting analyses of governmental policy. Friedman (1982) stated that governmental interference in the economy should be minimized. Friedman (1982) reported that competition support and anti-monopoly policy were two of the three main functions. Friedman (1982) analyzed issues related to the types of monopolies, generating resources, regulations, self-regulations and various forms of joint regulations. He also discussed their politicization with natural and technical monopolies. He described the effect of permits and licenses on competition. He justified using licenses in only one case: when there was an issue is of copyrights and intellectual properties. Friedman stated that licenses were a restrictive factor and could be used for political advantage.

Heyne, Boettke, and Prychitko (2009) go deeper into the issue. The authors considered the terms of monopoly and oligopoly as conditional and subjective when applied to individual cases. One concrete company may be considered a monopoly by one person and not by another. This situation depends on the amount of concrete needed. Heyne et al. (2009) analyzed price regulations, costs, special privileges and market restrictions. The authors stated that excessive governmental interference can create problems in the market. The research suggested that political interventions could disrupt the viability of the economic market. http://globalcompetitionforum.org.

The objective of this research was to explore the effect of political and economic decisions on competition, to define the main principles of antitrust policy based on international experience, to present practical recommendations for people making political decisions in the public sector, and to improve and develop a competitive policy for the country.

PRESENTATION OF KEY RESEARCH FINDINGS

There are three historical stages for the formation and implementation of competitive policies in Georgia:

1. **1992 to 1996:** Following the announcement of Georgian independence, the first document that was created was to address the restriction of monopoly activities and to develop market competition. The purpose of the document was to regulate monopolistic units in Georgia and to develop free market opportunities Georgian law 151 (1996).
2. **1996 to October 2004:** In this period competition and free trade legislation was developed based on European laws. An antitrust department was formed by the Economy Ministry. This department was given the power to control companies that had dominating positions in the market. The companies with a 33% market share or higher were considered to be market monopolies. The first monopolies were identified and a monopolies registry was created Papava (2007).
3. **December 2004 to April 2013**: After the 2003 Rose Revolution the government launched reforms

and abolished the competition agency because it was ineffective. During this period the market was free of regulations, but the larger companies were taking advantage of the absence of legislation. The government was unable to deal with the problems. Georgian law 1550 (2005); *The "Kviris Palitra Newspaper* (May 6, 2007).

Monopolies and dominating market companies create problems in the free market when the companies have the formal or informal support of state officials or people making political decisions. All cases in Georgia focus on this issue. There was an antitrust service in Georgia and the market had a problem with free competition. There were times when Georgia's antitrust service was not operating but free competition existed anyway. The source of the problem was: 1. deliberate political decisions aimed at making favorable terms for a concrete company to support its monopolistic market position. 2) State officials were making decisions in the upper and lower levels of the market. These changes were to enhance regulations and control. The changes had good goals (for example, protection of consumers or improvement of their welfare), but the State officials did not realize that the results the implementation of these changes might bring negative effects on the competitive environment. http://www.oecd.org/competition/toolkit.

In this article, the author presented two examples from the Georgian economy that referred to the implementation of regulations, the effect of liberalization on the competitive environment, and the market quality development.

PORTING ON THE MOBILE COMMUNICATIONS MARKET

At the end of 2010 there were only three cell companies operating in the market. The number of subscribers was about 4 million. The concentration (coverage zone) of subscribers was 89%. The average revenue per use (ARPU) was 10.15 GEL (Laris). At the end of 2010 the minutes of usage (MOU) per user was 79 minutes per month.

Under the statute of the Georgian National Communications Commission (GNCC), starting February 15, 2011 cell network users were allowed to port their phone numbers to other cell operators without changing their phone numbers. The aim of the decision was to boost the competition in the market. The concentration index was very high – only three companies were controlling 100% of the market.

After the introduction of the new porting system, the number of users of cell services grew to 4.7 million. By the end of 2012 the coverage zone rose to 104.5%. The revenues of the companies rose to 461 million GEL. The average monthly income per user was decreased by 1.71 GEL to 8.44 GEL. This signified that the service price decreased for subscribers. The talking time rose by 46 minutes to 125 minutes a month.

From 2011 to 2012 about 125,000 subscribers have used the porting system. The number of cell companies has increased and the companies have been introducing new technologies amid the sharp competition. New competition has increased while prices have dropped. Silknet is a new company that has joined the market. Despite these positive changes, the market remains highly concentrated among various sectors HHI = 9604 (3 companies) HHI = 7056 (2 companies) www.gncc.ge.

THE EFFECT OF THE STATE INSURANCE PROGRAM ON THE INSURANCE MARKET

On December 9, 2009, the Georgian government issued a resolution to determine the main guidelines of general insurance. The government announced an offer to invite private insurance companies to provide health insurance services to Georgian citizens beginning in 2010.

After the offer, the following decisions were made: the participant companies that were selected for various regions of Georgia were given the exclusive rights to supply insurance services. These companies were given these districts: 1. JSC GPI Holding – the Mtskheta-Mtianeti Region (7 districts), the Kakheti Region (2 districts), and the Imereti Region (4 districts). 2. JSC Archimedes Global Georgia – the Kakheti Region (2 Districts); 3. JSC Imedi L International – the Kakheti Region (3 districts), Achara (7 districts), and the Samtskhe-Javakheti Region (2 districts); 4. JSC Aldagi BCI insurance company – the Imereti Region (3 districts) and the Samegrelo Region (2 districts); 5. LLC Vesti – the Samegrelo Region (3 districts); 6. LLC IC Group – the Samegrelo Region (4 districts), the Shida Kartli Region (2 districts), the Kvemo Kartli Region (2 districts), and the Svaneti-Racha Region (4 districts); 7. LLC Alpha – Tbilisi, the Shida Kartli Region (2 districts), and the Guria Region (3 districts); 8. LLC Irao – the Imereti Region (3 districts), and the Kvemo Kartli Region (5 Districts); 9. Cartu insurance company – the Imereti Region (1 district); 10. Samtskhe 2010 fellowship – the Samtskhe-Javakheti Region (4 districts) http://insurance.org.ge/index.php?a=main&pid=215&lang=geo.

During 11 months in 2010 the insurance premiums collected were 120 million GEL. The yearly insurance premium per person was 132 GEL. The total number of insured was 888,392 persons. The insurance companies were supposed to build hospitals in their districts. The total number of hospitals was to be 46 with 1130 beds. The State was actively interfering in the healthcare and medical insurance market with its new regulations. http://www.sao.gr/news/273.

The monopolistic positions of the insurance companies in various districts restricted consumer rights. Consumers could not select a desirable insurance company or health services. As a result, competition among the insurance companies was impossible.

The main objective of the healthcare program was to provide affordable medical services for the people. New hospitals with efficient management operated by the private sector failed. The insurance companies' profits were 34 million GEL in the first year of the program. This figure was twice as much as the 2009 projections. A research audit has shown that the profits of the companies ranged from 50% to 80%. This was because of the small payment of claims and the lack of medical services made available to the public. The insurance companies were taking advantage of the monopolistic positions in their regions.

The number of claims against the insurance companies has increased. The consumers were not receiving quality medical services. The cost of these services became unaffordable. As a result, the government began investigating the activities of the insurance companies. The prosecutor's office arrested several representatives of the insurance companies and imposed considerable fines on the companies. At the same time, the government began to fulfill the claims of the public. Strict interference in the insurance sector brought negative results.

In 2011 the insurance losses were 22.4 million GEL. The costs of the losses grew by 79%. The insurance companies claimed that the losses were caused by the mandate to build new hospitals. In 2012 two insurance companies, Vesti and Mobius, applied to the National Bank of Georgia (NBG) for bankruptcy. NBG approved the requests and Archimedes Global Georgia purchased the Vesti liabilities and its healthcare package. The financial positions of leading insurance companies were weakened during this time.

The volume of the annual insurance premiums was not sufficient to cover business costs. Because the program was created so quickly, management could not accurately estimate the risk factors:

a) Taxes were not calculated by the insurance mathematical method. The company offering the lowest prices was winning the bidder, even though the taxes could be unrealistic and incorrect. The companies made enormous profits and they did not provide the valuable medical services. In 2010 insurance companies enjoyed large profits, but since 2011 the losses have been increasing. Alpha insurance company offered the lowest tax of 9.70 GEL per person per month. As a result, the company had to withdraw from the market because it could not pay its costs.

b) Inflation was not calculated.

c) The factor of growth in applications was not estimated correctly. In the beginning only 1 or 2 people out of 10 bought the insurance. But when the public became informed, 7 to 8 people out of 10 applied for insurance. As a result, the losses of the insurance companies began to rise dramatically. (www.moh.gov.ge) (www.insurance.org.ge);

CONCLUSION AND RECOMMENDATIONS

This research has formed a system of control questions designed to evaluate the decisions of responsible parties. Decisions might be related to the restriction of direct regulations or to liberalization. The decisions may also have indirect consequences on the regulations and affect the quality of competitiveness.

The system of control questions formed from the research contains four main directions:

1. **Do the new changes limit the number of suppliers:**
   A) Whether they give exclusive rights to companies for supply of goods and services;
   B) Whether they introduce the system of licenses and permissions to help with the launch of new business activities;
   C) Whether they limit the number of certain suppliers operating in the market and for creating new products;
   D) Whether they increase costs for entering or withdrawing from the market;
   E) Whether they create geographic barriers which limit the potential for the supply of goods and services and the workforce in the market. Do the changes limit the opportunity for investing;
2. **New changes limit the competition potential of suppliers:**
   A) Whether they limit traders to set their own prices on goods and services;
   B) Whether they limit suppliers to freely spread advertising and develop marketing opportunities for their products and services;
   C) Whether they introduce new quality standards for products. This creates unjust privileges for certain suppliers unless the standard of quality pertains to all of the products on the market.
   D) Whether they increase production costs for companies. This may affect new companies in the market;
3. **Limits supplier's interest to take part in market competition.**
   A) Whether self-regulating or general regulatory laws are introduced;
   B) Publicizes the information of output, prices, turnover and expenditures;
   C) Certain companies or groups of companies go outside the scope of the main regulatory laws to limit competition or antirust policies;

4. Limits consumers choice and access to information

A) Limits the consumer's choice to buy products from preferred suppliers;

B) Limits the consumer's right to replace products of one supplier by products of other suppliers if the consumer can get a lower price;

C) Changes the information of the products and restricts the consumer from making an informed purchase based on the information.

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