

Revaz Lordkipanidze

*Some Classical and New Errors in Competition Theory and for the
Best Know-how of America, China and Germany*

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Doctor of Economic Sciences (Specialization: Economics, World Economy and International Economic Relations), Founder of Academy named after Economist Avtandil Gunia (<http://revaz-lordkipanidze.simplesite.com>) writes about Some Classical and New Errors in Competition Theory and for the Best Know-how of America, China and Germany (https://en.wikipedia.org/wiki/Revaz_Lordkipanidze). This work will be useful for specialists of fundamentals and practice of Business and Law.

**Dedicated to the memory of our sincere friend
- Nobel Laureate in Economics Robert Fogel.**

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***Some Classical and New Errors in Competition Theory and for the Best
Know-how of America, China and Germany[†]***

By Revaz Lordkipanidze

By my this work, the USA, China and Germany have the best experience in an evaluating and protecting competition, but there is one significant but - it's important to have many competitors, but not very or infinitely many, as even some official structures and specialists traditionally think about "perfect competition". If we don't correct wisely this understanding, we can damage fair businessmen and thoughtlessly help to dangerous "masked" monopolies. At the initial stages of my research, I didn't see it, but in the end, I noticed
(JEL A10, B12, F01)

I created my economic concept about the need of a competitive “approximate balance” between the private and public sectors of the economy in the early 1990s and I’m very glad, that to the approach of 2020, modern regulated markets of *the USA, China and Germany* are following a similar way and have achieved fantastically great results.

As an economist, I permanently feel responsibility to think about for improving of a human life and a maximal eliminating of a poverty. We think, that It’s possible only with a minimal unfair competition in the world. For a determination of the most exact understanding about competition, on a base of

[†]As Doctor of Economic Sciences and founder of Academy named after Economist A. Gunia (Georgia), for a study the nature of competition, I organized many urgently needed philanthropic works and have to express special gratitude to professional economists of American Economic Association for so needful intellectual support. In the 1990s, I was acting minister of Economy in the Adjara Region and became member of 3 American Academies of Sciences - Political, New York and California, but when I became member with economic ministry and personally of the American Economic Association, It was especially respectable for me as for professional economist. We started charity research and reformed problematic economy by the very talented retrospectives of Robert Fogel and Ludwig Erhard.

economic-mathematical analysis, I used¹ even physics and define the natural force of competition by experience of famous Ohm's law ($I=V/R$), where “I” is the force of competition, “V” (voltage) – the volume of market, “R” (resistance) – the largest supplier. This natural similarity of the strength of electric current (“current through a conductor”), makes possible to determine the strength of competition and the optimal - the most effective level of competition.

With the growth of the number of competitors, the strength of competition grows, but a very large number of market participants, in my opinion, can cause a "short circuit" and "overheating" of the economy, as a result, a hyperinflation surplus and a severe crisis shock.

We don't need the competition of an infinitely large number of "ants" in the economy - need a natural competition of diligent competitors, where all participants (not only small, but also large) of the competition do their necessary (effective) business.

The intersection of a feedback curve of "strength of competition" and "size of the largest market supplier" with a timetable for linking "size of enterprise" and "level of efficiency", can obtain the optimum level of "force of competition" for each concrete reality².

After the very interesting and, in my opinion, accurate in the dates interpretation of the historical process of a development in economic relations, R. Fogel writes, that “ The accumulation of historical and current biomedical studies on the trends in health, longevity, and human physiology, combined with controlled studies of animal populations, are leading some evolutionary biologists to place increasing emphasis on plasticity in human aging.”³ By a good influence of this multi-factorial research of human life, I conducted also

¹ Please see my work “The Force of International Competition (For the Fundamentals of Business and Law)” <http://dspace.nplg.gov.ge/handle/1234/193397>

² Lordkipanidze, Revaz. “Competition theory's "sensational" implicit defects and urgent regulations” <http://dspace.nplg.gov.ge/handle/1234/247873>, P. 103.

³ Fogel, Robert, W. 1999. "Catching Up with the Economy." *American Economic Review*, 89 (1): P. 9.

an logical analysis of neuroeconomic character, which shows us, that a human not so often behaves as better for all. The examined elementary cases of decisions in critical situations illustrated many instinctive and not expediency reaction of a businessman, which even goes to aggravate competition, when could act more freely. For example, if a person buys a ticket to a movie and makes a choice between a full and empty halls, the instinct of desire to be more popular makes him go to the full situation. The result is over-strained competition and more polluted air in the full hall. It's fact that in such cases a protection (regulation) of a reasonable competition is very needful.

Observations on American business showed us too, that even an economically very strong country like America, without a wise international antitrust structure in new conditions of a world economy with internet abilities, will not be able to neutralize international dishonest implicit monopolies. The unfair competition is the main motivator for a world poverty and terrorism⁴, which demands urgent reforms, especially in small developing countries and practice has confirmed that big businessmen can be successful far-sighted political reformers as well.⁵

As an economist, I consider myself like a debtor for developing a conceptually sound opinion on overcoming a very high 80% poverty level in an increasingly rich world, morally justified (effective) form of enriching a person and, accordingly, the true basis of a competition. The role of the United States in the reduction of world poverty is truly invaluable and many of my works are devoted to this. My country - Georgia, after the collapse of the Soviet Union, was the latest in the world by GDP per capita and in conditions of the poorest

⁴ Silverstein, Jason. 2017. Newsweek. Trump and Putin Keep Calling Each Other for Praise, Discuss North Korea and Terrorism.

⁵ Herszenhorn, David M. 2013. Georgia Elects New President, but Real Power Will Rest With Next Premier. New York Times.

statistical base, often only professional intuition saved us. The main reason for the failure at the start of an economic independence was an erroneous knowing about a competition and role of economic policy, whereas the different models with some combination of a competition and regulation gave the best stable results in as big countries as the US, Germany, China and so on.⁶ The first results similar to the combined-network know-how regulation proposed by me are particularly noticeable in the started US tax warming reform and state subsidies for the high technological cluster (Silicon Valley, USA), on the newest social market of the economically developed EU countries (Germany, Sweden, Benelux countries), in free regional zones (China), with effective implementation of planned market mechanisms (Japan), on the example of "science cities" (Academgorodok and present experience of large state universities, Russia), in the healthcare of Great Britain, etc. God and the "Invisible Hand" of competition exist, but God doesn't require that a person should live with his hands down - an intelligent regulation is urgently needed.

Since the Great Depression (30s of the 20th century) and post-war reforms in Germany⁷, the debate between the neoclassical supporters of the "Invisible Hand" of Adam Smith's competition and the supporters of Keynesian regulation has become more sharp until our time too. Some of them disclaimed the "invisible hand" in general and the new neoclassical synthesis came as an intermediary.

With the sincere respect to Adam Smith and David Ricardo, I must remark, that they genially see the power of the "Invisible Hand" of Competition, but in assessing of a created value by it, emphasis is placed on the quantity of labor, but not on quality and demand for the needful efficiency. About the Real and Nominal Price of Commodities, Smith writes, that "Equal quantities of labour

⁶ Lordkipanidze, Revaz. "Competition theory's "sensational" implicit defects and urgent regulations" <http://dspace.nplg.gov.ge/handle/1234/247873>, P. 3, 59, 91, 101

⁷ Mierzejewski, Alfred C. 2004, "1957: Ludwig Erhard's Annus Terribilis", *Essays in Economic and Business History*, 22; Snower, Dennis J., and Steven J. Bosworth. 2016. "Identity-Driven Cooperation versus Competition." *American Economic Review*, 106 (5).

will at distant times be purchased more nearly with equal quantities of corn..."⁸ and in Labor theory of value Ricardo determines - "The value of a commodity, or the quantity of any other commodity for which it will exchange, depends on the relative quantity of labour which is necessary for its production, and not as the greater or less compensation which is paid for that labour."⁹

My goal isn't a criticism of Smith - I think He was a genius for his era, but, naturally, with human errors. My goal is to perfect the established understanding from times of Smith and to present in the world Herfindahl-Hirschman and Bork visions, that a large number of competitors (buyers and sellers) the first of all determines a perfectness of competition: "The HHI takes into account the relative size distribution of the firms in a market. It approaches zero when a market is occupied by a large number of firms of relatively equal size and reaches its maximum of 10,000 points when a market is controlled by a single firm".¹⁰

I published a lot of monographs and works about a competition and in this article I presented a maximal shortly generalized work with my more perfect conclusion vision of rational competition. Without the proposed by me "rational number" instead of a "large number", we can erroneously divide the effective local big business or prevent the merger of business in a decent way, violate the presumption of innocence of the local entrepreneurs and create favorable conditions for secret collusions of external dishonest "businesslike" activities.

The definition of market competitiveness only according with Herfindahl-Hirschman's methodology, can create a false impression, that the market is doing well. And false impressions about the markets can lead to false ideas

⁸ Smith, Adam. An inquiry into the nature and causes of the wealth of nations. <http://www.econlib.org/library/Smith/smWN.html> I.5.15

⁹ Ricardo, David. On the Principles of Political Economy and Taxation. 1.1 <http://www.econlib.org/library/Ricardo/ricP.html>

¹⁰ Herfindahl-Hirschman Index. Updated July 29, 2015. <https://www.justice.gov/atr/herfindahl-hirschman-index> ; Bork, Robert H. (1993). The Antitrust Paradox (second edition). New York: Free Press, also about it https://en.wikipedia.org/wiki/Perfect_competition

about the most important demographic and political-defensive abilities of all country. For Elimination of Threats from artificial "race" (for a large number of competitors) of some antimonopoly authorities to new progressive small, middle and big businesses with innovation technologies, we recommend 5 main principles for estimates of market competitiveness: 1) honesty of businesses; 2) effectiveness; 3) level of unrealized (mostly substandard) production and services; 4) level of the largest supplier; 5) number of competitors. Only complex estimate with integral indexes will have the best results.

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