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Ways to Reduce the Economic Impact of Natural Monopolies

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Abstract. The level of competitiveness of a country's economy is primarily determined by the activities of monopolies in the domestic and foreign markets. In the era of economic globalization, it is possible to observe an increasing share of monopolies in the industrial economy. This is because rapid economic development requires extensive opportunities, such as financial capital, modern technologies, the introduction of new innovative ideas, and the need for qualified and experienced personnel.

Key words: monopoly, natural monopoly, oligopoly, competitive environment, competition mechanism, "market defects", pricing theory, profitability, limited amount of price growth, relative price growth, social policy, environmental protection, economic security.

Introduction.. The level of competitiveness of a country's economy is primarily determined by the activities of monopolies in the domestic and foreign markets. In the era of economic globalization, it is possible to observe an increasing share of monopolies in the industrial economy. This is because rapid economic development requires extensive opportunities, such as financial capital, modern technologies, the introduction of new innovative ideas, and the need for qualified and experienced personnel. Compared to small organizations, monopolies or natural monopolies have always been more capable of meeting these needs.

The term "monopoly" is used in regulatory and legal documents and legal literature to describe the dominant market position of an economic entity, as well as its special powers (privileges, rights) to carry out any type of market activity.

The activities of monopolists are aimed at limiting competition, setting monopoly high (or low) prices, and creating barriers to market entry. These actions disrupt the balance of market forces, lead to the irrational distribution of social resources, and worsen the economic conditions of all other market participants and society as a whole.

Issues of market monopolization and the level of competition are particularly relevant in the current stage of economic development of the countries that are members of the Eurasian Economic Union. Market monopolization negatively affects the market.

One of the negative factors influencing the market and limiting or even eliminating competition is the creation of barriers (obstacles, restrictions) by monopolies for new economic entities (market participants) wishing to enter the industry. As a rule, the incentive for new economic entities to enter the market is the prospect of high profits, including rising prices in the market.

Many economists have dedicated their research to studying market entry barriers. However, unfortunately, legal issues have been largely overlooked by both economists and legal scholars and are possibly among the least studied in the competition law of some countries.

Thus, the importance of market entry barriers and their role in the development of monopolies remains largely unexamined.

Analyzing the state of competition requires studying market entry barriers, as this helps define market boundaries. Barriers can be examined and analyzed once the market boundaries are determined.

The analysis of entry barriers involves identifying the market participants who may face various forms of barriers (economic entities in the same sector, region, including product suppliers or consumers, etc.).

If new production is created, it is considered an entry into the industry. However, if existing production undergoes some changes but no new production is obtained, this is not a change in the volume of products offered in the market but rather a simple transfer of management.

A.N. Varlamova defines the essence of barriers to market entry as follows: "Barriers to entry are any factors and tools of a legal, organizational, technological, economic, financial nature that prevent new economic entities from entering the product market and competing on equal terms."

By barriers to market entry, we understand any conditions that hinder new economic entities from competing on equal terms with existing market participants.

The key point in identifying entry barriers is to answer the question: will new economic entities be sufficiently attracted to lower the monopoly high price to a competitive level? If the answer is yes, there are no barriers; if no, then barriers exist.

The existence of entry barriers can be seen as an indicator of 1) the degree of monopolization of the market, industry, and economy in general, and 2) the level of dominance of monopolists in the market. Let's explore the essence of these criteria.

The presence of barriers as a sign of monopoly. Entry barriers are used by monopolists to protect their market power, so they can be seen as restrictions that prevent new additional sellers from entering the market and, in the long term, preserve the dominant position of the monopolist.

Moreover, entry barriers not only protect the monopoly but also restrict or even eliminate competition in the market by preventing free entry. Otherwise, the entry of new sellers into the market and the consequent increase in the supply of certain products would lead to the complete loss of monopoly control over prices, as the market would become competitive.

The existence of barriers as a criterion for determining the dominant position of a monopoly. Barriers to entry into the product market can be an important criterion for establishing the dominant position of an economic entity in the market. The lower the barriers to entry, the less significant the market share of economic entities, as the large market share of one of its participants does not necessarily indicate a dominant position.

If there are at least a few examples of successful market entry, it is not necessary to believe in the existence of high barriers. Thus, the conclusion is that the lower the barriers to entry into the product market, the less the market power of the economic entity, regardless of its size (large or small).

Barriers can be economic, technical, or legal in nature. Moreover, legal barriers often play a decisive role in the economy. Let's consider legal barriers.

The oldest forms of legal barriers are monopoly rights, which rulers appropriated with the right of the strongest. These monopoly rights later became known as "state monopolies."

In legal and economic literature, there is almost no specific classification of entry barriers protecting monopoly markets. Generally, only three types are named: economic, natural, and legal (regulatory). Since we are considering legal barriers, we tried to classify these barriers (restrictions) based on several characteristics. The following criteria were selected:

- 1) Composition of subjects: subjects creating legal barriers (economic entity monopolist; state authority);
- 2) Type of regulatory legal documents restricting entry into the industry or market;
- 3) Coverage (within and outside the country).

In a market economy, protecting property rights is one of the highest priorities that allows the economic system to function. Therefore, the state helps establish this market structure, ensures the protection of property rights in a market economy, and even tolerates monopoly when necessary.

Creating barriers for market entry by other economic entities should be considered actions against the competitive environment. Such actions are one of the ways an economic entity abuses its dominant position.

Actions against the competitive environment can also be the object of monopolistic activity by management bodies. In this case, such actions represent the greatest social danger, as they are carried out using state authority.

Thus, the excessive power of monopolists should be considered the main negative aspect of economic monopolization, along with other negative aspects, aimed at creating barriers for other economic entities to enter the market.

Monopolists control the entry of new economic entities into certain industries or markets, considering them potential competitors.

Barriers to monopoly can be established by the state (in the form of patents, licenses, tariffs, and other government restrictions) or related to the monopoly's advantage, the technology it uses, or the management know-how it applies, or the need for large capital investments to carry out economic activities in this field.

In developed countries, antitrust legislation has been developed and adopted to combat barriers created to prevent new economic entities from entering monopolized markets, allowing competition with monopolists in these markets and improving the situation for buyers due to competition. The presence of barriers as a sign of monopoly.

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