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Characteristics of the World Economy in the Postwar Period

by Noboru Yamamoto

In the first part of the present article, I point out that world economy after the termination of the Second World War did not necessarily enter the period of stable growth following the reconstruction period and the period of confusion immediately after the war. But it has rather entered the period that can be regarded as transformation period. I try to consider the historical background of such development.

In the second part, I try to analyse how the four characteristics of the world economy that are found immediately after the war have changed during the course of historical development which is pointed out in the first part of the article.

The four characteristics studied are as follows;

1. Intensification of the unbalance between the economic strength of the countries that won the war and those that were defeated, especially, the increase in productivity of the United States and dissolution of the economic structure of the countries that lost the war, such as in case of Japan, Germany and Italy.
2. Increase in unbalance among the countries that won the war, especially among the countries that experienced the damage of the war and those that did not experience the damage. In this case, the contrast was made between the absolute superiority of the American economic strength against the position of the countries like the United Kingdom, France, Soviet Union and Mainland China that experienced the damage.
3. Attainment of political independence of numerous colonies and progress in modernization of their economy, which provided the background for altering the relationship with their former homelands. Namely the realization of breaking the past subordinative relationship with the latter.
4. Progress in socialistic world economic system based on the increase in strength of the Soviet Union and so-called communist block and the development of its evident confrontation and its separation with the capitalistic world economic system.

Through the postwar development of the world economy, the first and

the second problems indicated above seem to have nearly disappeared with remarkable progress in rehabilitation and economic development that took place in Germany, Japan and Italy, those countries that were defeated in the war. However, the third problem brought the emergence of many new independent nations and the problem of economic development of these underdeveloped countries. Also, the confrontation of the eastern and western blocks that was pointed out in 4 continues to form a basic current of the world politics and economy and causes many conflicts.

In the third part, I point out the following four points as the important problems that confront the world economy in the period of transformation with the above mentioned circumstances as its background.

1. Emergence of the problem related to the south and the north in relation with the problem related to the east and the west.
2. Progress in the system for international co-operation between developed countries.
3. Development and diversification of liberalization and regional intergration.
4. Problem of "the third market" and promotion of economic development of underdeveloped countries.

The limitation in available time to prepare the present article made the analysis to become mere general interpretation of the four points indicated above. In the near future, I hope to continue further analysis on these points to make clear the actual situation of the world economy in the transformation period.

Price Determination by Oligopolists (1)

by Isamu Kitahara

I. Basic Characteristics of Oligopoly—Concert and Antagonism among Oligopolists

The relationship among small number of large enterprises in oligopolistic market with high degree of concentration and high barrier for the entry has distinctly different characteristics on the following points compared to the relationship among many enterprises in competitive market. Namely, there is a possibility and probability that the oligopolists take concerted actions to limit the competition and to determine the amount of output and thus to set

monopolistic price. The concert among the enterprises becomes easier as the degree of market concentration becomes higher and number of enterprises within the industry becomes less. The recognition of advantages in establishing the concert becomes easier as the barrier for the entry becomes higher. Moreover, if the small number of large enterprises fails to establish mutual concert but pursues competition through price cutting, there is a danger that it will develop into continuous cut-throat competition which will lead the entire enterprises to the destructive state. Thus small number of large enterprises that tries to maximize long-term profit rate tends to limit mutual competition in order to realize to higher profit rate jointly.

However such concert among oligopolists does not eliminate mutual antagonism among them. Their interests do not coincide completely as each of them is different independent enterprise with different capacity for development, production cost and market share. Thus the concert among oligopolists can be characterized as the concert that includes antagonism in various aspects and there is a possibility that under certain condition it can be transformed into an open cut-price war.

II. Basic Problems in the Determination of Monopolistic Price and output through Concert among Oligopolists.

The small number of large enterprises that belongs to the same industry limits the mutual competition and performs the monopolistic determination of price and output by the following three major forms.

- (a) Open agreement (Cartel or Pool)
- (b) Tacit agreement (Gentlemen's agreement)
- (c) Mutual understanding based on the tacit negotiation (or de facto negotiation) that does not accompany any agreement. (price leadership is an important form of (c))

Under the Anti-trust polity, the concert among oligopolists tends to take form (b) or (c) rather than form (a), but small number of large enterprises can determine price and output equally effectively by mutual concert, without any agreement.

However, determination of monopolistic price and output by concert among small number of large enterprises in contrast with the determination of price and output in case of a single-firm monopoly involves problems that are pointed out below. And thus it is difficult to realize perfect maximization of joint profit (ratio between total profit and total investment) of the

whole enterprises that belongs to the same industry.

(1) It is difficult to allocate the amount of production to individual enterprises or adjust the utilization rate of each factory to minimize the total cost of the entire industry. Whereas in case of single firm monopoly that operates many factories with different cost structure, it is possible to adjust the utilization rate of each factory to minimize the total cost.

(2) Even after problem (1) is solved, it is difficult to determine the price and output at the level which will maximize joint profit, since such level of price and output will not necessarily maximize the profit of each enterprise. Each enterprise will find different levels of price and output as most advantageous to him as the condition of cost and capacity for growth will differ among them. The determination of level of price and output through concert will be made as a result of compromise among different opinions of various enterprises.

(3) It is difficult to limit the competition among oligopolists entirely by concert. The limitation on competition in one phase may stimulate the competition in other phase and involves the possibility of destroying the concert itself.

(4) It is possible to overcome some portion of such problems indicated above by enforcing the price and output determination by adopting patent pool or by syndicate. However, as it will fail to eliminate the basic inconformity of interests among enterprises, some problems will still remain unsolved.

(5) The concert among enterprises based on their own will fails to eliminate the emergence of enterprises that do not participate in the concert namely non-cooperative firms (outsider in case of cartel). As the strength of non-cooperative firms or outsider increases, more limitation will be imposed on the determination of monopolistic price and output by enterprises that participated the concert.

The problems related to the determination of monopolistic price and amount of production through concert among oligopolistic enterprises indicated above rise from the basic characteristics of oligopoly, the fact that each enterprise are independent enterprise with different cost, market share and capacity for the development.

The problems such as, how these oligopolistic enterprises will determine price under the threat of entry; what are the level of such prices; and also how the prices will move according to the changes in conditions are expected to be analysed in the article that will be published in the future.