Dimensionen des Wettbewerbs

Seine Rolle in der Entstehung und Ausgestaltung von Wirtschaftsordnungen

Herausgegeben von
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und
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35 Abbildungen und 17 Tabellen
Vorwort zur Schriftenreihe


Inhalt

A. Einführung

Dimensionen des Wettbewerbs: Problemstellungen .................................................. 1
Karl von Dethaes, Ulrich Fehl

B. Wettbewerb in der Marktsphäre

I. Grundlagen

Wettbewerb als Hypothesentest: Eine evolutiorische Konzeption
wissenschaftenden Wettbewerbs ........................................................................ 29
Wolfgang Kerber

Wettbewerbpolitische Konzeptionen ...................................................................... 79
Herwig Brendel

II. Wettbewerb über mehrere Marktsstufen hinweg

Die Koordination von Wissen über mehrere Wirtschaftsstufen .............................. 103
Carsten Schreiter

Humanvermögen in evolutionären Wettbewerbsprozessen .................................. 139
Hans-Günter Krasselberg

Der Wettbewerbszusammenhang zwischen Kapital- und Gütermärkten ............. 177
Alfred Schüller

III. Ausgewählte Märkte mit spezifischen Wettbewerbsproblemen

Technische Restriktionen als Wettbewerbsproblem - Das Beispiel
des Marktes für elektrische Energie ................................................................ 217
Helmut Gröner

Der Arzneimittelmarkt im Spannungsfeld seiner institutionellen
Umgebung ........................................................................................................ 235
Frank Daumann, Peter Oberender

Funktionsbedingungen und Funktionsprobleme des Wettbewerbs im
System der deutschen Krankenversicherung ................................................. 285
Kornelia van der Beek, Dieter Cassel
wettbewerb in anderen Interaktionssphären

I. Theoretische Aspekte

Wettbewerb als ontologische Universale: Natürliche Arten, wettbewerbsche Interaktionen und Internalisierung

Carsten Herrmann-Pillath

Wettbewerb und Demokratie - Zur Problemstellung einer institutionenökonomischen Ordnungslehre

Ingo Pies

II. Befunde der langen und mittleren Frist

Effiziente Institutionen und wirtschaftlicher „Rückschritt“

Günter Hesse

Der Zusammenhang zwischen der Entstehung und dem Wettbewerb von Ordnungen

Helmut Leipold

Die Entwicklung der Gewerbeordnung in Deutschland von 1731 bis 1897

Hans-Georg Reuter

Das Zusammenspiel von Wirtschaftsordnung, Unternehmensorganisation und Industrialisierung: Vergleichende Betrachtungen zur Wirtschaftsentwicklung Deutschlands und der USA 1850 - 1914

Peter Hermer

II. Die kurze Frist: Die Bedeutung von Wettbewerb im Transformationsprozeß

Wettbewerb in verschiedenen Wirtschaftssystemen

István Balcerowicz

Instituting Competition as a Spontaneous Element in Transformation

István Czaba

Problem der sichtbaren Hand bei der Herstellung von Wettbewerb: Zur Rolle der Treuhandanstalt

Ron Gutmann, Werner Klein

Regulationspolitik und Wettbewerb in Netzindustrien: Entscheidungen und Optionen für osteuropäische Transformationsländer

Melius Graack, Paul J. J. Weifens

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A. EINFÜHRUNG

Dimensionen des Wettbewerbs: Problemstellungen

Karl von Delhaes, Ulrich Fehl

1. Wettbewerb auf der Markalebene

1.1. Wettbewerb als evolutionärer Prozeß: Allokation versus Innovation als Ansatzpunkt

1.2. Wettbewerb als wissenschaftlicher Prozeß: Innovationen, Wissen und Institutionen

1.3. Wettbewerb als Marktstufenübergreifender Prozeß

1.4. Wettbewerbprozesse auf Märkten mit besonderem Regulierungsbedarf

2. Wettbewerb in anderen Interaktionssphären

2.1. Gründe für die Ausweitung der Analyse

2.2. Wettbewerb in Organisationen - Voraussetzungen und Besonderheiten

2.3. Zu den Beziehungen zwischen Interaktionssphären

2.4. Wettbewerb zwischen Regelsystemen

2.5. Prüfung des evolutorischen Ansatzes an der Empirie

Literatur

555

563
Instituting Competition as a Spontaneous Element in Transformation

A. Csaba

Introduction...........................................................................................................480

How important is competition for systemic change?........................................482

Competition for capital .........................................................................................486

Competition in the labour market ........................................................................488

Competition in financial markets .........................................................................489

Competition by means of restrictions and controls ..............................................491

Competition for land ..............................................................................................492

8. Some concluding remarks on the role of the state in promoting the evolution of
    competitive order in the course of transformation............................................494

References .............................................................................................................496
1. Introduction

At a certain level of abstraction transforming economic systems is a contradiction in terms. The term implies transition from a command economy to a market system where centrally managed order to spontaneous order. True, this change has started well before communism collapsed: partly in the form of officially initiated decentralisation partly in the form of a spreading second economy (Dallago 1990). In both unintended by-products have often proved more relevant for shaping the outcome of the reform measures themselves. We can take this as a proof of the predominance of spontaneous changes. Moreover it seems legitimate to generalise this point to system changes that totally destroyed the „world socialist system“. As I tried to prove elsewhere (Csaba 1995) the collapse of the Soviet empire was neither the result of a grand project secretly masteredmind by various conspirators of the content of the world, nor the outcome of any particular policies of the Gorbachev era. Actually corroded in a long process culminating in rather coincidental series of events, shaped the actual form of what was historically inevitable. In other words: the system itself, at the macrolevel, was also - finally - spontaneous.

This observation may shed some light on the belief that was next to general in the 1989-91 period in Central and Eastern Europe pertaining to the spontaneous nature of systemic change itself. Since command planning collapsed by and large in an spontaneous manner, and since further the end-point of the transformation exercise was a market, is essentially a spontaneous order, it seemed legitimate to assume that most of the job of recreating the market will and actually has to be entrusted to the invisible hand. Since gradualism and social engineering were discredited as bedfellows of the outgoing regime, the blind faith in quick fixes - also on the institutional plane - has become part and parcel of the new credo. All you need is a resolute government and willing to deliver a stabilisatory shock - and the rest will emerge from scratch in more than a year or two. Domestic policy considerations, as well as the high profile economic problems in public discussions compelled even more sophisticated mind to adhere to this simplistic reading of what neoclassical economics has to offer.

Empirical evidence in several countries - on the other hand - has lent much support to a theoretical position maintaining that the abolition of old structures leads to systemic vacuum, but not to an elaborate market order (Schmieding 1993). Thus liberalisation in developing countries and rebuilding the postcommunist systems are entirely different issues. All the more so, as the institutional infrastructure of most market economies emerges only as a result of governmental activity. Furthermore, requires much more than rewriting old laws and copying well functioning institutions from abroad: they need a kind of internalisation, social conditioning, imprinting and cultural norms. In a well-argued paper von Delhaes (1994) pinpoints the paradox of social engineering: the spontaneous requires a wide variety of constructivist activities in order to substitute the rule of law for previously dominant commands.

I owe this point to my conference discussant, U. Vollmer.
Eastern Europe. This has to be seen in close connection with their quite exaggerated endeavours at standardisation on the part of the EU and its NATO partners.

Thus it may be sensible to reformulate the question and ask about the competition in transforming the economic systems of postsocialist countries. Such an address such a wide subject, whose proper analysis would require a monograph to advance seven theses. These are far from being all-embracing or fully exhaustive, but they might enable the reader to gain some novel insights in the multiple forms of competition in systemic change.

2. How important is competition for systemic change?

Initially, it does not seem to be a major issue. In the transforming context an outgoing state religion preached the focal role of property. So did the new ideology of the property rights school as well as most international consultants. The general line was that transcending the benchmark of a 50 per cent share of private ownership will ensure the irreversibility of market-oriented reforms. Interestingly, not only on average, but also among the various constituencies of the market order. If it does not seem to matter what it becomes to transformation, this might be taken as a reflection of the actual way of thinking on the subject.

As a consequence of quantity-oriented and property-centered approaches, greed becomes the overriding maxim of assessing the success or failure of the entire process. The economics was for the most part undertaken for granted (or seemed to be best served by the maxim). Though much less in German and French literature, policymaking on the lines of this predominant "mainstream" approach to transformation prevailed. Let us address some of its consequences:

a) The formally most radical variant of transformation is the Russian and version of voucher privatisation (cf. Bolot-Roland 1992, Majo 1993, Borst 1994a). In this concept what really matters is the destruction of the old property, not necessarily the old power-structures and the ‘buying-out’ of the population, otherwise adversely affected by privatisation. In this concept the relatively fast concentration of discretionary powers in the hands of a randomly selected few is built in and seems perfectly normal. If the problem of corporate competition by ignorant small shareholding is being addressed by investment funds - as in Russia, Slovakia and Czechoslovakia - concentration is positively fostered by the newly created institutions. In other words, competition as something differing from the contest of lottery players, has no particular concentration of wealth and power is taken for granted just as much as was the case in the textbooks on business administration during the socialist period. In those countries actual regulatory practices are hostile to foreign ownership (even the 1995 version of the Czech foreign currency regulations proclaims foreign ownership of fixed assets). Therefore foreign entrants will not take care of the problem. Furthermore, if bankruptcy legislation remains a lame duck - as is the case in both Russia and the Czech Republic - and investment funds remain in the hands of state-owned banks, even the theoretical possibility of competition clearing the market looks minimal. Instead, the Far Eastern experience of lasting intertwining of economy and polity and the resultant monopolistic structure of the market seems to be an inseparable outcome of the very nature of this model. Recent Russian analyses (Skorobogatko 1995) underline the penetration of political parties and new business groups. This vouches support for the extreme liberalism deplored by representatives of this new elite (Braginskii-Vladimirov 1994) as a major threat to the ‘healthy core’ of Russian economy. And indeed, from August 1992 the dominance of industrial interest over system designers has become manifest in Russia. Likewise, contrary to the very radical statements of Premier Klaus, the Czech government followed a very cautious restructuring policy. The privatisation of banks remained largely formal and so did their influence on and surveillance of corporate management, where the intertwining has become more complex, not different (Klusek 1995). Thus neither a competition for clients, nor a competition for takeovers, even less an exit of malperformers can realistically be expected. This may explain the very unfavourable experience of large direct foreign investors in the country with the best macrodata. The quality of the business environment, of course, is crucially dependent on competition, both within and outside the country, and on all factor markets.

b) In a way, we may interpret the developments as follows: Inherited socialist monopolistic structures were complemented by new ones in privatisation. The latter emerged either through the investment funds, or by the intertwining of banks and industry, or were created by foreign direct investors buying up entire subsectors. New small businesses tended to alleviate shortages and generally supplemented rather than crowded out the supply of large firms. Under these conditions competitors from abroad are the only ones to put the political pressure on the market position of the coalition of monopolists. Thus it is barely surprising that the discussion over the allegedly premature and excessive opening to foreign investors by the Central and East European countries figures high on their political agenda. The calls for ‘regional market protection’ have been elevated to the level of governmental policies in Slovakia as well as in Poland and this concern has never ceased molding Russian foreign trade policies.

2 Many other countries made similar attempts, from Lithuania to Bulgaria and most notably Poland. In the latter case the government agreed to this project only in the sixth year of the transformation. This timing by definition invalidates the standard argument of special favour of this approach under Polish conditions. In Rumania the project has been stopped for the fourth year by now.

Leading members of the Klaus administration openly admit this as a major stumbling block to the Czech Republic’s prospective EU accession (cf. Wall Street Journal Europe, 7-8 April, 1995).
Though it does not need a lengthy elaboration why protectionism is a bad general and harmful for transformation in particular, the emergence of this by-product of preserving monopolistic structures is instructive in so far as it is an example of the interdependence of sub-orders in the economic system. A monopolistic-dominated organisation can hardly tolerate free trade. And conversely: in policy, the neglect of the competitive aspect backfires domestically and internationally. Those policies which attempted to introduce liberal capitalism without caring about competition did not prove to be sustainable and have been gradually subverted by a counterattack of inherited structures that have only resisted the new policies turned towards neoprotectionism and state interventionism has gained political back to the general left move of the political shuttle in 1993-95 all across the region.

c) Lack of sufficient competition (that would have lead to the exit of the underperformers) is a possible explanation why ownership change has not resulted in efficiency increases that were to be expected. Especially in relative terms the publicly owned and privatised companies, on average, were not performing substantially better than privately owned counterparts. This finding was established on the basis of empirical research for Poland (Belka-Pinto 1993), Hungary (Major 1995), Russia (Boev-Bornstein 1994b; Hare-Ash 1994) and the Czech Republic (Capke-Buchkova 1994) but can probably be generalised for the entire region. Moreover, especially in Russia, the Czech Republic, field research could not identify meaningful differences between public and private sectors: private companies continued to hoard resources and bargain with public authorities, whereas the companies often changed their output, cut costs and raised their prices.

Searching for some general common factors explaining this queer outcome, I think of the following. First and foremost the economic environment of companies have changed significantly less than their ownership. Monopoly structures and cases even managerial positions could be preserved. Control by corporate government has hardly improved, it has instead rather weakened. As a rule, hardly any new management and new management skills were contributed by the new proprietors (especially in various forms of people's capitalism were employed). Privatisation or new competitors could rarely develop new channels of marketing as the consequences of the restructuring corporations remained, as a rule, marginal. Last but not least, with a toothless or non-existent (like in Rumania or Serbia or Ukraine to date) bankruptcy legislation there is no ground for us to expect allocative efficiency to improve at the macrolevel. If client selection, which is supported by cross-ownership, continues there's little to expect an improvement. In a recent article evaluating the bank reforms favourably Dilitus (1994, pp. 358-359) underlines the long way even banks in frontrunner countries have to go before they can really become full-blooded market managers to improve the ability to assess risks, and also to prevent the systemic collapse of financial institutions.

But does not the sizeable and ever growing shadow economy account for most of the competitiveness pressures anyway? Estimates attributing 20-40 per cent of GDP to the inefficient sectors would seem to lend support to this point. However, one should not forget that the underground economy has always been an integral part of the socialist system. It helped to overcome its rigidities and profited from the entry barriers specific to the planned economy. Therefore, it was naive to see the second economy as the vector of economic freedom in the dictatorship, and consequently to be surprised by its barons' continued interest in retaining entry barriers, in securing their influence via political means and their overall dislike for any real competitor. In this context the belief of the private sector seems to be positively misleading as a quantitative indicator progress for a basically qualitative process of systemic change. Furthermore, the size and the mafia economy is a reason for grave concern. These processes will never follow the Hegelian idea and turn into their qualitative opposite, the rule of law, which is the backbone of a civilised market order. Lee Kuan Yew in Singapore or Leszek Balcerowicz in Poland were not just typical products of their traditional societies. On the contrary: they earned fame and success only by their enforcing radical continuation of previous established practices. Thus, if the mafia structures permeate the state, there's no reason for us to expect them to enforce law and order, as this is precisely what is not in their interest. The more central authorities aim at a deal (Auskrieg) with them, the higher is the probability of ending up in an authoritarian system pursuing populist policies (Leipold 1992).

This is probably the most blatant case in point: the spontaneous order does not emerge in a spontaneous fashion on the ruins of the Soviet empire. In order to get to a civil market economy, a strong, not a lame duck state is required. The USA has not retained a country of the Wild West, neither retained Britain the reign of robber barons. A strong state and a competent administration is, however, only one of the necessary conditions. These need to be complemented by an appropriate vision, a conceptual clarity over salient features of the order that are aimed at, finally the willingness and the ability to act according to this set of values. In other words, a market order will hardly be the product of sheer pragmatic policies, or of mere crisis management.

Though this term is sometimes used in an unqualified manner in Russia to describe anything that is against the law (i.e. almost everything), I do believe that reliance on private enforcement of both property rights and contracts and the concomitant violence do deserve this phrase.

This fairly traditional, though quite relevant point of ordoliberalism invited comments (Kovacs 1994) on its allegedly covert authoritarian implications. The discussion in the main text may illuminate why we think this does not apply either in theory nor especially in practice.
which seem to have become the focus of current normative economics in the region (Smirnov 1995; Koves 1995).

In summing up the four points discussed above we may conclude: Continuing the disregard for considerations of competition are indirect proofs of the overall relevance of this aspect. This disregard is directly to blame for the continued disregard of side effects over constructive intentions, i.e. for spontaneity remaining a feature of systemic change as a macroprocess, in descriptive terms. This is particularly true when it comes to shortcomings in normative policy approaches, partly to the nature of subject. Therefore, in the following we will analyse the role of competition for factors.

3. Competition for capital

In the context of transformation competition for capital can be interpreted as levels. At the more down to earth level this has to do with the classical income distribution conflict, with the fight of competing societal groups for scarce resources. This trend has become palpable in a wide variety of forms. Classical socialist concepts of industrial policy, classical world propositions of protecting the farming sector, typical attempts to ensure income positions of certain social groups (e.g. civil servants) irrespective of market performance abound. In several transforming countries covert ways (re)introducing self-management are observable as with the social security direction in Hungary, or as with the continued influence of workers' councils in Poland, Russia, or the application of schemes providing disproportionate preferential positions to employees during privatisation. Similarly, the fight for market entry is also a battle between old and new contenders for the same cake, and the meaning of new policies needs no elaboration here.

But for our perspective it seems more interesting to look into the other dimension: the contest of various privatisation concepts. In tackling this dimension it seems expedient to delineate ownership change as a means of social engineering and as a form of business deal.

Privatisation as a means of social engineering took various forms:

1. A means of sectoral policy. This approach was particularly strong in East Germany, in agriculture even more than in industry. The farming sector to the extent it was decollectivised so as to ensure a structure that would gain most from the agrarian policy. In industry, despite justified criticism (Schiller 1994) the idea of preserving industrial cores, of retaining and restitutive and other non-business considerations (like finishing the job by December 1994, whatever it may cost) seems to have prevailed which is reflected in the negligible role played by foreign or German investors in the process. Likewise the Czech government was taking part in deciding the fate of each and every large project according to its deliberations, keeping an eye on employment, national ownership and avoidance of any major disruption (e.g. liquidations and closures). The centralised procedures of both decisionmaking and implementation have lead to conflicts with all major Western investors. Likewise, in Russia too, the centralised process aimed at cementing managerial power by extending to it parts of the ownership. In none of these cases did the idea of creating competitive markets dominate. Instead, the respective government followed other priorities. And the price to be paid for the loss of efficiency - both allocative and dynamic - discussed above.

2. The means of building up a national middle class. This was seen necessary in order to rally lasting social support for the post-socialist government and build up a new political constituency with a stake in the new order. This priority was particularly strong in the Antall government in Hungary. This implied both a centralised management of major deals as against the spontaneous privatisation of the 1988-90 period and the exclusive use of preferential methods of artificially creating small 'real' owners, e.g. the ESOP, restitution, new entrepreneur's (E) credit lines and many others. Analysis of the practices correctly established (Veszka 1994) that this implied not less, but merely a different type of redistribution. It is hardly by chance that efficiency criteria were not a top of the list, which explains what seemed very paradoxical in the previous point: limited economic gains from privatisation.

3. Building up immediate political support for the ruling party. This consideration is not unfamiliar in Western privatisations, either. However, in some cases it clearly dominated in 'the East'. It could take fairly uncomplicated forms of paying one's electorate by appointing them to large public firms which were later sold in closed subscription to preferred buyers only. This method was particularly favoured by the Rumanian President Ceausescu and the Slovak Premier Mečiar. Alternatively, the Czechs chose a more sophisticated form with voucher privatisation timed to the June 1992 election campaign. And who would resist a windfall? In any of these cases efficiency remained a side issue.

4. Destroying the old power structure. This consideration figured particularly high in the Albanian and Russian cases when a handful of reformers knew: they could never convince the electorate before the old guard would strike back. The idea of reversibility of changes should not so easily be discarded, especially keeping in mind the changes in the former GDR, Russia, Lithuania, Bulgaria and the lack of any structural change in Serbia, Rumania, Ukraine and Croatia. Under this angle the idea of getting at least some of the changes through deserves more sympathy. This, however, will be less than sufficient for trying the standard efficiency argument for privatisation.

5. Modernising corporate structures. This was a prime concern in the large scale factor in Hungary in 1988-94 when foreign capital was involved. Gaining new technology, financing and access to organised markets were priorities. This approach welcomed foreign ownership as the sole means of modernising the antiquated white elephants and as a kind of model from which advanced management practices can be emulated. This approach, of course, contrasted strongly with the inherited value judgement of most of society, who will find it difficult to accept the opposite of everything that it was accustomed to. The antibolshevik communists of the right adhere to the same economics as the traditional Left. A coalition of both is already observable in Rumania and Russia as well as in Slovakia. Thus the best move is bound to trigger the sharpest resistance, especially if it is very alien to the organic processes of the respective
societies. The marginalisation of Polish, Rumanian, Bulgarian and Russian liberal demobilizing defeat of the Estonian Right, and the shrinkage of the Slovak centre, indications of this point.

We gain a completely different impression if we see privatisation as a business. In this perspective the eclecticism shaping the practices of each and every transforming country becomes palpable. A variety of methods are used in each of the countries, which is quite akin to the Western experience. In these approaches sectoral and timing regulations, policy expediencies, fiscal or regional concerns can dominate, depending on the case. This is obviously not only the case of the minor priority, the pace for ownership change can't be politically calibrated, so policies can be conducive or adverse to the spread of private ownership. However, policies can not unilaterally determine the outcomes, as the latter depend on the action of several players, and the course of the interplay is also influenced by several factors that are not under the control of public authorities (like technical or social features or cultural, behavioural characteristics). Thus similar policies are bound to result in different outcomes.

All this also implies, that in the long run the price for capital tends to be lower scarcity rather than by policies or rules in the transforming countries. Reform devices or various schemes can influence only short term prices; and the conditions only increase transaction costs or slow down the process. The quotation on the compensation notes on the Budapest stock exchange reflect our point directly: the supply of assets to be bought for these increased, it proved to be a most illiquid form of portfolio investment, whereas its price collapsed with the Hungarian government's preference for deals in cash. However, the conversion coefficient of coupons to cash stabilised: on average 2.5 units of coupons equaled a unit of money in 1992-94.

4. Competition in the labour market

Labour is a factor with strongly regulated markets even in West European countries. In transforming countries the idea of emulating the Western (market) practices has not been strong. 'Even the capitalists are doing it this way' has been a point of view, and the manifold repercussions of rigid labour markets are often neglected.

Interestingly, the collapse of central authority meant that with very few exceptions governments could hardly prevent the market forces correcting previous centrally determined income positions in a rather dramatic fashion. With moderate exceptions, high inflation, money savings eroded and the entrepreneurial sector gained against those taking prestigious positions in the hierarchy. In this process especially those on public sectors payrolls and with no access to market-determined incomes lost, like teachers of humanities, doctors on X-ray stations or unskilled semiskilled white collar workers for example. Where double digit unemployment signalled the breakthrough of market regulation, the wage proportions were corrected in a rather radical fashion. The second economy, whose macro-significance is compared to that in Southern Europe, also accelerated this process. Freeing prices and wages...

This means, that minimal wage legislation has become illusory, with about 20 per cent of Hungarian workforce actually receiving less than this. Meanwhile, unlicensed economic activity - at least seasonal - was observed with 80 per cent of the unemployed. Both labor unions and chambers of industry disintegrated and never regained their old prominence. Massive immigration has helped to eliminate scarcity professions. Unions could organise major strikes only in extreme cases as in Russian mining after deaths without wage payments, or in exceptionally long periods of sinking real incomes in Bulgaria. By and large, a very flexible and mostly market determined income system emerged. Attempts to channel these tendencies through a social pact in Hungary conspicuously failed by February 1995, whereas Rumanian, Russian and Ukrainian attempts to get things into some order by old administrative methods proved equally futile. This state of art may not qualify the transforming countries for joining the social market of the EU. By the same token it might become one of their major competitive advantages in the process of restructuring their economies and finding their new place in the world economy. In other words, competition might prevail in this important market fairly spontaneously.

Competition in financial markets

In the transforming countries, competition in financial markets occurs on two different planes. One is competition for the given amount of savings, whereas the other competition is among various forms and means of savings.

In the first dimension we do observe a stiff competition for domestic savings between the state (the Treasury), the merchant banks, the business community and also foreigners (who in private accounts are a very widespread phenomenon). This competition will get stiffer with the abolition of previously separated channels of money circulation and the liberalism of the currency regulations. The severity of the situation is well illustrated by the fact that Russian banks lend their sovereign only against collateral (Kates 1995). Attempts by the Hungarian central bank in 1991-93, of the Polish treasury in 1993-95 and of the Russian government in 1992-94 to push down interest rates artificially ended in failure. Likewise, attempts to set exchange rates in an unambiguous fashion proved problematic in Poland an the Czech Republic in 1995 due to the heavy inflow of portfolio investments. In sum these features make it highly improbable that Keynesian policies of manipulating the rate of interest or the exchange rate according to short term policy expediency could stand a chance of revival in transforming economies. Spontaneity of the markets thereby limits the scope for arbitrariness of the bureaucrats.
It is equally important to see the relevance of competition among various savings. With most of the previous administrative barriers gone, this means in currency as well as in the form of real estate severely constrains the state as depress rates of interest and thereby also to set other conditions of lending. Under conditions crowding out by the Treasury becomes a realistic problem for transitional economies. The less the fiscal authority is able to exercise restraint in spending, the higher the probability of its drying out the domestic financial markets (unless it continues to rely on central bank financing as in the Czech Republic, Russia, and Poland).

This might have several further repercussions. First and foremost, ready supply of money is crucial for the equities of companies if investing into zero risk treasury bills is a rewarding even in terms of return. Thus the equity market is bound to remain inactive for longish periods of time. This makes the reorganisation and privatisation of banking sector a priority task. The sooner a country can manage this task the more can it clear the way for its gaining a lasting edge over its neighbours. If the transition is not successful, the probability of its gaining a lasting edge over its fellows will be reduced.

A further repercussion of weak intermediation and high inflation will be the loss of role of institutional investors like pension funds and insurance companies. The same token availability of long term finance will be limited by the nonavailability of sufficient long term savings. This calls for the state to intervene in the form of a programme of tax reduction and tax return to all those willing to save and invest under uncertainty to promote savings. Harmonizing tax rates and procedures with EU countries thus seems a counterproductive idea, since the specific difficulties of financial intermediation during transition call for specific options in the Central and East European countries. While these exceptional incentives may well be superfluous in mature economies, they probably can not be replaced by other, non-discretionary means in a sensible manner during transition.

The only positive aspect of this rather unhealthy situation is the relatively savings' rates which mirror the growing income differentials and equalise personal uncertainties. Thus, saving is not dependent on the current rate of interest but on real rates of interest on accounts in domestic currency inclusive taxes (or in fixed assets). Handled accordingly, this may even enhance the efficacy of monetary policy in controlling macroeconomic processes. But this holds only if public authorities accept the constraints in setting the rate of interest and the of exchange put upon them by spontaneous processes. Those unwilling to accept the constraints will be punished by the savings' spontaneous evasion to forms and places over which the monetary authority has no control. In this way, higher real savings at national level may go hand in hand with decreases in the efficiency of monetary control. Thus national and international competition in financial markets is one of the strong disciplinary factors inducing sound monetary policies in the transforming countries, more they succeed in controlling fiscal deficits and inflation, the less burdensome competition may be for them.7

Competition by means of restrictions and controls

The starting point in postcommunist economies is characterised by lack of transparency of economic relations. A typical economic agent is thus precisely in the opposite situation than the perfectly informed agent of neoclassical models. Many prices and quantities are still regulated, access to various factors of production is constrained by regulations and controls. The inherited price, income and value structures do not reflect values or proportions in the world markets. Furthermore, availability of basic information is less than adequate. For instance, investment funds in Russia do not disclose their balance sheets even to the authorities or to their shareholders. Banks and public companies are not required to make public their consolidated balance sheets. Public finance is more often than not saddled with improper accounting practices. These and other serious flaws in the information system render insights fragmentary and allow for to special interests to manipulate data (and thereby the public and the authorities alike) according to their tastes.

On top of it both democracy and the state are weak.3 This is, of course, a direct encouragement for vested interests to organise themselves. While the socialist ideology of overemphasized 'public interest' there now is an inclination towards private interests and keeping only representation of private interest as legitimate. Observance of law and moral values is limited at best. Thus the bellum omnia contra omnes is also seen as normality in transforming societies.

Finally both politicians and the public show limited if any interest to economics. Microeconomic education has been nonexistent for decades and the myths of planned economy have deeply penetrated the public subconsciousness. Understanding of elementary economics is often fragmentary at best. This is a fertile soil for woodoo economics if packaged appropriately.

These circumstances pertain to our subject in three aspects.

a) There are widespread attempts to create new or to preserve old monopoly in national government. Representatives of joint ventures have opened a lobby in Hungary and demanded (with some success) the enforcement of a 'buy national' principle in the new public procurement act. Parallel cases occurred in Poland. Strategic investors are often willing to advance large sums only in exchange for decades-long market protection, for tax holidays or if an entire network of companies can be retained in a single hand. Lacking a conceptually well founded and professionally well articulated policy of promoting competition as a public good, governments of transforming countries often manoeuvre themselves and their successors into awkward positions. Constitutional

7 With the liberalisation of private currency accounts a competition among taxation policies has already emerged. With the liberalisation of capital accounts this will be extended to the entire regulatory systems, at least at the microlevel. Globalisation and liberalisation thus gradually will create a room for Hayekian competition among orders at the international level. But this is a medium to long run eventual reality as yet.

With reference to Latin America some analysts (Kédjar 1984, Schwarz 1994) advance the thesis that actually an authoritarian system is best suited to the transition period, both for developmental catch-up and institution building. Our discussion above has indicated the danger in this approach which seems to be overdoing a point, that is as good as valid, i.e. the importance of the rule of law against the cult of unconstrained spontaneity.
guarantees of private property mean that public monopolies turned into post-facto are hard to break up ex post facto. Moreover, the artificially strengthened vertical monopoly structure has made the private property structure thus emerging will be a long way from the ideal of private property (and free society). This trend is particularly strong in the CIS and Eastern Europe.

b) Attempts to exempt entire sectors from competitive pressures on grounds of ‘economic considerations’ in analogy to the EU also abound. Suffice to list the sectors where such attempts have made significant inroads in Central and Eastern Europe: Farming is seen mostly as a sacred activity which has by definition more to do with retaining cultural identity than with competing costs and benefits in the hope of a market price. The energy sector has traditionally been over-centralized and run on military rather than business principles. The danger of falling into the category mentioned first is particularly grave here in the forthcoming privatisations. The pharmaceutical sector can skillfully employ the argument of social sensitivity in order to retain price regulation and central allocation (or lists of subsidised products) in order to crowd out uncertain competitors. Attempts to emulate Western practices also emerge on the legal market. These were shown to be futile above, but regulation does breed regulatory controls and offices, thus this area needs to be included in the present list. In the service of services, especially banking, but also airlines and railways, protection is as much a guiding principle as ever.

c) Finally, mention should be made of the foreign trade régime and related activity, where a lot remains to be desired before transforming countries can live up to their obligations. The WTO. Elaboration of the details requires a monograph (cf. Winters, ed. 1992). Suffice to note: the principle of competition, of creating contestable markets does not feature high among the priorities of transforming governments. Lack of vision and determination may equally explain why they give in to protectionist instincts so easily and let many diverse areas. The price for this, of course, is to be paid by the societies themselves, both in terms of static and dynamic efficiency, as well as in the deceleration pace and scope (of systemic change).

The factors sketched above may support our fifth thesis, i.e. that the spontaneous development of the spontaneous order is an extremely weak process. The room for public authorities’ conscious influence on evolution in the direction of a well-functioning and civilized market economy remains substantial even if discretion is deliberately minimised.

7. Competition for land

This classical issue has gained new importance in development economics. Comparing Latin American to East Asian strategies Sandlands (1992) demonstrates convincingly the favourable implications of the latter countries’ limiting traditional rent-seeking possibilities especially in the urban areas. This is precisely how things are done in transforming countries. For the time being, the inclusion of land among the factors and the ways how public authorities could deal with it to foster growth is a second rank issue at best. Instead, limitations of various sorts abound.

b) In most countries a close to paranoid fear of vicious foreigners buying up the arable land molds legislation. Even in the most liberal transforming country, Hungary, it prohibits the foreign ownership of arable land and forests, whereas industrial sites can be bought by foreigners on license. In other countries normally nothing - not even holiday resorts - can be bought by non-residents. These are clear political constraints.

b) The former are complemented by property-related constraints which stem from the reform of the inherited socialist property order. From the practical perspective this toughest hurdle is erected by the extensive reestablishment of municipal property rights. There are neither rules nor procedures to limit local politicians in their aspirations, be they greed or pure ill-will. In many cases large investment deals can not materialise because of arbitrary or excessive claims of municipalities on the investor. This applies a fortiori for downtown areas. In Russia the continuously changing balance of forces tends to enhance local power, which is partially institutionalised by formal delegation of authority. In reality, each entity of the Russian Federation has a large discretionary power, which widely diverging practices. Over and above, larger towns and oblasts may also interpret existing rules according to their tastes, which are rarely more liberal than central legislation.

Reprivatisation and restitutions created chaotic ownership relations. Not only East Germany knows a large number of examples of contested titles. Restitution in kind clashes directly with the interest of cooperatives and their employees. In Bulgaria this has slowed down privatisation of land, whereas in Rumania a wave of spontaneous reprivatisation took care of the de facto, not, however, of the legal problems. The use of compensation coupons has not resulted in rewarding the victims of political persecution, but has become a source of capital accumulation by portfolio investors in Hungary. In the Czech Republic and Poland the lasting legal uncertainty for many titles remains.

Finally the continued role of workers’ councils, as noted above, remains a problem for countries like Russia, Poland and Serbia.

c) More recently the ghost of environmentalism has been set free. While decades of secretiveness covered horrendous neglect of the environment, the new freedoms have given birth to environmental fundamentalism. In many cases and sectors unproven allegations, fears and rumors can incapacitate perfectly sensible investments. Projects of waste management, airports, pharmaceutical firms and the like can be located to ‘powerfree’ in the country. A tiny club of devoted activists can easily cross the most elaborate cost/benefit calculations of international firms. Capital allocation thus certainly does not follow the least cost principle, and the ability to internalise the additional burdens may not be given at all (e.g. if any nuclear or waste recycling project is rejected out of hand by the local population). In business terms it also means that the market valuation of land as a factor has become volatile and in many ways indeterminable.

Summing up our sixth thesis we may suggest that the price for land will hardly be set by scarcities and market factors in transforming economies. This will be a lasting source of efficiency losses and deformation of factor allocation and income distribution.
Elaboration of this point may well be a task of the separate research project; surely go beyond the scope of the present analysis. Our conclusion in point would encourage public authorities to promote at least some competition attempts to constrain rent seeking and support productive investment by way of land and counteracting - as far as possible - irrational and fundamentalist policies sensible investment. Preserving the propensity to invest belongs to the core of the transformative endeavour.

8. Some concluding remarks on the role of the state in promoting the evolution of competitive order in the course of transformation

a) Our sketchy overview of empirical evidence on a series of transforming countries supports the seventh thesis: what spontaneously emerges in Central and Eastern Europe is a very long way from the Hayekian spontaneous order. The civilised social economy, unlike the Peruvian version of capitalism, does not evolve constructivist intervention. Since the totalitarian heritage is deeply rooted in behavioural norms, customs etc., the danger is grave that communism will be followed by an Asian type of capitalism, with a pervasive state deeply penetrated by money and industrial interest. The latter structure may well have some catchup potential for forward rural societies for some time, not, however, for European societies that already evolved into the urbanised postindustrial phase of development. For that reason, this model would mean a cultural and economic setback. Thus, we can Wagner (1994, p. 655) in seeing the dual role of the state in building a development consensus and in maintaining plurality via competition as irreplaceable.

b) The neglect of both of these tasks may explain why the self-defence of interest structures proved stronger as the policies aimed at transforming them in all post-socialist countries. Lack of developmental consensus in post-socialist countries also a sign of the reformist forces' inability to transmit their message in a credible manner to the population. The more of the shutdown to the left in most countries was in protest against the costs of transition than in favour of specific alternative policies. Thus the feasibility criteria of pluralist societies need to include the ability to persuade the electorate, the administration and even the economics profession of the sensibility of concrete transformative agendas and projects.

The subject of this paper was to rally support via each of the six preceeding directions of seeing competition as a public good under constant threat. This was a direct call for authorities to take care of this public good properly both for reasons detailed for each of the subjects, and for the quality of systemic totality attained via transformation.

9 The two exceptions are the Czech Republic and Russia, where the reformist political leadership has struck a virtual compromise with the industrial interest. The lack of authority runs the obvious risk of old structures' molding new policies and politicians, reflected in a low level of unemployment and a low turnover of the personnel heights of industrial command alike.
References


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