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Dimensionen des Wettbewerbs

Seine Rolle in der Entstehung und Ausgestaltung von Wirtschaftsordnungen

Herausgegeben von
Karl von Delhaes
und
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Schriften zu Ordnungsfragen der Wirtschaft

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Vorwort zur Schriftenreihe

Im Jahre 1954 hat *K. Paul Hensel*, seinerzeit Dozent an der Universität Freiburg i.Br., mit seiner Habilitationsschrift „Einführung in die Theorie der Zentralverwaltungswirtschaft - Eine vergleichende Untersuchung idealtypischer wirtschaftlicher Lenkungssysteme an Hand des Problems der Wirtschaftsrechnung" die Reihe **Schriften zum Vergleich wirtschaftlicher Lenkungssysteme** begründet. Dies war zugleich die Bezeichnung der von ihm errichteten Forschungsstelle, die 1957 - mit der Berufung *Hensels* als ordentlicher Professor - an der Philipps-Universität Marburg etabliert wurde.

Von seinem Lehrer *Walter Eucken* geprägt, war das Erkenntnisinteresse von *K. Paul Hensel* vor allem darauf gerichtet, die Beschaffenheit und Wirkungsweise alternativer Wirtschaftsordnungen zu erforschen. Schon bald erkannte er, daß hierbei - im Sinne der *Eucken*schen Interdependenz - die praktische Verflochtenheit wirtschaftlicher und rechtlicher Fragen eine stärkere Zusammenarbeit zwischen Wirtschafts- und Rechtswissenschaftlern erforderte. So gewann er den Marburger Juristen *Klemens Pleyer* als Mitherausgeber seiner Schriftenreihe, die er mit dem 1965 erschienenen Band 5, der Habilitationsschrift seines Schülers *Gernot Gutmann*, in **Schriften zum Vergleich von Wirtschaftsordnungen** umbenannte.

Bis zu *Hensels* Tod im Jahre 1975 waren 26 Bände über wirtschafts- und rechtswissenschaftliche Fragen der Wirtschaftsordnungen in der Schriftenreihe erschienen, darunter Dissertationen, Habilitationen, aber auch Sammelwerke, in denen die Herausgeber mit ihren Mitarbeitern spezielle Fragen des Systemvergleichs untersucht haben. Nach *Hensels* Tod wurde die Reihe von *Klemens Pleyer*, den Hensel-Schülern *Gernot Gutmann* und *Hannelore Hamel* sowie dem Hensel-Nachfolger in Lehramt und Forschungsstelle, *Alfred Schüller*, fortgeführt. 1995 wurde das Herausgeber-Team durch *H. Jörg Thieme*, der ebenfalls aus der Hensel-Schule hervorgegangen ist, erweitert. Die Themen der inzwischen erschienenen 51 Bände belegen, daß der Systemvergleich weiterhin im Vordergrund stand und seit 1990 durch Ordnungsfragen ergänzt wurde, die sich sowohl mit der Transformation der sozialistischen Wirtschaftssysteme als auch mit der europäischen Integration befaßten.

Diese politischen Ereignisse wie auch die Weiterentwicklungen der Ordnungstheorie haben zu einer thematischen Akzentverschiebung der Reihe geführt. Der Vergleich von Wirtschaftsordnungen ist nicht mehr allein auf Ost-West-Probleme bezogen. Alte grundlegende Ordnungsfragen erfordern neue Antworten: Welche Einflüsse haben politische Entscheidungsträger und bürokratische Verwaltungen sowie unterschiedliche Wertvorstellungen in den Regionen der Welt auf die Beschaffenheit von Wirtschaftsordnungen und deren Entwicklung in der Zeit? Wie wird menschliches Verhalten dadurch verändert, und welche Wirkungen entstehen daraus für das Geflecht von Teilordnungen in einer Gesellschaft?

Solche und andere Fragen werden heute in verschiedenen Ansätzen der Ordnungstheorie untersucht: in der Institutionen- und Verfassungsökonomik, der Ökonomischen Theorie der Politik und des Rechts, der Entwicklungs- und Evolutionsökonomik.

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Karl von Delhaes, Ulrich Fehl

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...ituting Competition as a Spontaneous Element in Transformation

...ló Csaba

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, from centrally managed order to spontaneous order. True, this change has started well before communism collapsed: partly in the form of officially initiated decentralising reforms, partly in the form of a spreading second economy (*Dallago* 1990). In both cases unintended by-products have often proved more relevant for shaping the outcomes than the reform measures themselves. We can take this as a proof of the predominantly spontaneity of changes. Moreover it seems legitimate to generalise this point to systemic changes that totally destroyed the „world socialist system". As I tried to prove in detail elsewhere (*Csaba* 1995) the collapse of the Soviet empire was neither the result of a grand project secretly masterminded by various conspiratory forces of the contemporary world, nor the outcome of any particular policies of the Gorbachev era. Actually it corroded in a long process culminating in a rather coincidental series of events, which shaped the actual form of what was historically inevitable. In other words: the collapse itself, at the macrolevel, was also - finally - spontaneous.

This observation may shed some light on the belief that was next to general during 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 a spontaneous manner, and since further the end-point of the tranformatory exercise, the 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 able and willing to deliver a stabilisatory shock - and the rest will emerge from scratch, in no more than a year or two. Domestic policy considerations, as well as the high profile of economic problems in public discussions compelled even more sophisticated minds to adhere to this simplistic reading of what neoclassical economics has to offer.

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

The role of social engineering seems to have been both underrated and overrated in [illegible] of the international debate on systemic change. At one extreme we find believers in the „big bang", who try to convince their changing audiences of the uses of a quick fix: once you've stabilised, the rest will emerge by and large from itself, or alternatively, you can take it ready made from the textbooks or from international consultants. At the other extremes we find the „optimisers", who are not necessarily less radical than those in the first group. They tend to believe in a generally valid strategy, operational across cultural diversities; however they are internally deeply divided as to the specificities of this strategy, in fact in all of its components. This group tends to blame the (partial or general) failure of any country on non-adherance to the peculiar textbook-wisdom of the analyst himself.

If we try to avoid any of these dead alleys, analysis of the ups an downs of East and Central European transformation policies shows two distinct features:

a) the presence of competing projects and philosophies seem to be a lasting phenomenon both *within* and *among* the postsocialist countries;

b) if they still have something in common, it is the uninterrupted dominance of unintended side effects over consciously conceived projects of various sorts, i.e. of *spontaneity over human constructs*. This can be explained by historical, cultural as well as structural and other more specifically economic considerations, like the relative size of the defense sector, the level of urbanisation, the openness or seclusion of the socialist period, the reform heritage or the lack of it, and possibly many others. Whatever our explanations may be, one conclusion is inescapable: transformation is a truly *Hayek*ian evolutionary process that can not be generalised and mathematically tested. Though many partial aspects of the process can, and indeed should be analysed by formalised econometric methods, the macroprocess as a whole can not be optimised (*Csaba* 1994; *Pejovich* 1993). As the starting point, the end point and most of the factors modifying the „natural" trajectory of country-specific developments differ by necessity, it is hard to see the common dimension and the common measure by which the concept of optimality could be operationalised. By the same token the *Hayek*ian concept of competition among orders should not be interpreted as meaning down right imitation of institutions developed elsewhere. It should rather be understood as the impetus to institutional innovation geared to the specific needs of the transforming country concerned resulting from the fear to be left behind[1]: True, the Ukraine could surely have fared better under more standard economic discipline, whilst the Lithuanian Left's promise to engineer a socially more sensitive while economically equally sound transformatory path proved to be an illusion. However, it would be hard to transplant, say, traditional Czech economic conservatism to countries like Azerbaijan or even Rumania. This finding also implies that in terms of abstract theory the *Hayek*ian idea objectively can't be advanced further than *Schüller* and *Weber* (1993) did by underlining the inevitability and also the favourable nature of competing national strategies of systemic change in Central an

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[1] I owe this point to my conference discussant, *U. Vollmer*.

Eastern Europe. This has to be seen in close connection with their rejection [illegible] exaggerated endeavours at standardisation on the part of the EU and its NAFTA [illegible]

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

2. How important is competition for systemic change?

Initially, it did not seem to be a major issue. In the transforming countries [illegible] 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 belief was that transcending the benchmark of a 50 per cent share af private ownership [illegible] ensure the irreversibility of market oriented reforms. Interestingly, not only [illegible] Europeans and Anglo-Saxons follow this line of thought. In a most authoritative and comprehensive volume of over 800 pages published by the *Ludwig Erhard Stiftung* (*Hermann-Pillath; Schlecht; Wünsche*, eds. 1994) there is no seperate chapter either [illegible] competition or on competition policies. This is symptomatic insofar as the ordo-liberal tradition has always been distinct precisely by its stressing the focal role of competition among the various constituents of the market order. If it does not seem to matter when it comes 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, speed [illegible] become the overriding maxim of assessing the success or failure of the entire process, while sustainability was taken for granted (or seemed to be best served by the maximum speed possible). Though much less in German and French literature, policymaking along the lines of this predominant „mainstream" approach to the transformation problem prevailed. Let us address some of its consequences:

a) The formally most radical variant of transformation is the Russian and Czech version of *voucher privatisation*[2] (cf. *Bolton-Roland* 1992; *Majo* 1993; *Bornstein* 1994a). In this concept what really matters is the destruction of the old property-, though 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 governance by ignorant small shareholders is being addressed by investment funds - as in Russia, Slovakia and Bohemia - the [illegible] concentration is positively fostered by the newly created institutions. In other [illegible] competition as something differing from the contest of lottery players, is a non-[illegible] 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 af the Czech foreign currency regulations precludes foreign ownership of fixed assets[3]). Therefore foreign entrants will not take care of the problem. Furthermore, if bankruptcy legislation remains a lame duck - as is the case both in 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 inescapable outcome of the very choice of this model. Recent Russian analyses (*Skorobogatko* 1995) underline the inter-penetration of political parties and new business groups. This vouches warranty against the extreme liberalism deplored by representatives of this new élite (*Braginski-Yavlinskii* 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. Privatisation of banks remained largely formal and so did their influence on and surveillance of corporate management, where the intertwining has become only more complex, not different (*Klacek* 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 business 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 potentially serious threat to the dominant 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.

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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 transformation. This timing by definition invalidates the standard argument of speed in favour of this approach under Polish conditions. In Rumania the project has been tiptoeing for the fourth year by now.

3 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 policy in general and harmful for transformation in particular, the emergence of this inevitable by-product of preserving monopolistic structures is instructive in so far as it is indicative of the interdependence of sub-orders in the economic system. A monopolistically dominated organisation can hardly tolerate free trade. And conversely: in policy terms the neglect of the competitive aspect backfires domestically and internationally alike. Those policies which attempted to introduce liberal capitalism without caring much about competition did not prove to be sustainable[4] and have been gradually subdued by the counterattack of inherited structures that have only resisted the new policies. The turn towards neoprotectionism and state interventionism has gained political backing by 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 notorious underperformers) is a possible explanation why *ownership change* has not resulted in the *efficiency increases* that were to be expected. Especially in relative terms the private and privatised companies, on average, were not faring substantially better than their publicly owned counterparts. This finding was established on the basis of empirical field research for Poland (*Belka-Pinto* 1993), Hungary (*Major* 1995) Russia (*Boeva* 1994; *Bornstein* 1994b; *Hare-Ash* 1994) and the Czech Republic (*Capek-Buchtiková* 1994), but can probably be generalised for the entire region. Moreover, especially in Russia and the Czech Republic, field research could not identify meaningful differences in enterprise behaviour between the public and private sectors: private companies continued to hoard resources and bargain with public authorities, whereas public companies often changed their output, cut costs and raised their prices.

Searching for some general common factors explaining this queer outcome, we may think of the following. First and foremost the *economic environment* of companies may have changed significantly less than their ownership. Monopoly structures and in most cases even managerial positions could be preserved. Control by corporate governance has hardly improved, it has instead rather weakened. As a rule, hardly any new money and new management skills were contributed by the new proprietors (especially if various forms of people's capitalism were employed). Privatised or new companies could rarely develop new channels of marketing as the involvement of transnational 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 losers do not die, and this applies not only to the public sector. Finally, if *financial intermediation* remains rudimentary - as was the case in all transforming economies - there is absolutely *no ground for us to expect allocative efficiency to improve at the macrolevel.* If adverse client selection, which is supported by cross-ownership, continues there's little reason to expect an improvement. In a recent article evaluating the bank reforms very favourably *Dittus* (1994, pp. 358-359) underlines the very long way even banks in the frontrunner countries have to go before they can really become full-blooded money managers: to improve the ability to assess risks, and also to monitor borrowers will take

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4 Alternatively, the core transformation policies remained at the level of declarations of policy intentions.

All the more so, since large scale governmental bailouts (as in Hungary) or the total lack of any supervision of banking activities - coupled with no guarantee of the interest of private savers (as in Russia), or the avoidance or standard EU accounting practices (as in the Czech Republic) allow them to show fat profits without caring much about money management.

d) But does not the sizeable and ever growing shadow economy account for most of the competitive pressures anyway? Estimates attributing 20-40 per cent of GDP to the irregular 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 bureaucratic coordination. Therefore, it was naive to see the second economy as the bulwark of economic freedom in the dictatorship, and consequently to be surprised to see its barons' continued interest in retaining entry barriers, in securing their interest via criminal means and their overall dislike for any real competitor. In this context the spread of the private sector seems to be positively *misleading as a quantitative indicator of progress* for a basically qualitative process of systemic change. Furthermore, the spread of the mafia economy[5] is a reason for grave concern. These processes will never follow the *Hegel*ian idea and turn into their qualitative opposite, the rule of law, which is the backbone of a civilised market order. *Lee Kuan Yu* 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 discontinuation of previously established practices. Thus, if the mafia structures penetrate 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 (Ausgleich) 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 social market economy, a strong, not a lame duck state is required.[6] The USA has not remained a country of the Wild West, neither remained 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 is 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,

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5 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.

6 This fairly traditional, though quite relevant point of ordoliberalism invited comments (*Kovács* 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 much of the region (*Smirnov* 1995; *Köves* 1995).

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

3. Competition for capital

In the context of transformation competition for capital can be interpreted at two levels.At the more down to earth level this has to do with the classical income *distributional conflict*, with the fight of competing societal groups for scarce resources. This takes the form of the rebirth of etatist concepts, since public authorities remained vastly powerful not only in distributing benefits, but also in their *allocating ownership position*, i.e. lasting sources of income and influence. This trend has become palpable in a wide variety of forms. Classical socialist concepts of industrial policy, classical third world propositions of protecting the farming sector, typical attempts to ensure *ex ante* income positions of certain social groups (as e.g. civil servants) irrespective of their market performance abound. In several transforming countries covert ways of (re)introducing self-management are observable as with the social security directorates in Hungary, or as with the continued influence of workers' councils in Poland and Russia, or the application of schemes providing disproportionate preferences for employees during privatisation. Similarly, the fight for market entry is also a fight between old and new contenders for the same cake, and the meaning of new protectionism 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 Eastern Germany, in agriculture even more than in industry. The farming sector fo the ex-GDR was decollectivised so as to ensure a structure that would gain most from the EU agrarian policy. In industry, despite justified criticism (*Schüller* 1994) the idea of preserving industrial cores, of attaining regional, restitutive and other non-business considerations (like finishing the job by December 1994, whatever it may cost) obviously prevailed which is reflected in the negligeable role played by foreign (non-German) investors in the process. Likewise the Czech government was taking pains 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 (like

plant closures). The centralised procedures of both decisionmaking and implementation have lead to conflicts with all major Western investors. Likewise, in Russia the 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. Indeed, the respective government followed other priorities. And the price to be paid for it was 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 postsocialist government and build up a reform constituency with a stake in the new order. This priority was particularly strong under 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 reliance on a variety of preferential methods of aritificially creating small 'real' owners, like ESOP, restitution, new enterpreneur's (E) credit lines and many others. Analysis of these practices correctly established (*Voszka* 1994) that this implied not less, but merely a different type of redistribution. It is hardly by chance that efficiency criteria were not on top of the list, which explains what seemed very paradoxical in the previous point: the 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 electrorate via appointing them to large public firms which were later sold in closed subscription to invited buyers only. This method was particularly favoured by the Rumanian President *Iliescu* and the Slovak Premier *Meciar*. 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 White Russia, Lithuania, Bulgarja 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 proving the standard efficiency argument for privatisation.

5. *Modernising corporate structures*. This was a prime concern in the large scale sector in Hungary in 1988-94 when foreign capital was involved. Gaining new technology, financing and access to organised markets were the 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 antibolshevist 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 liberals, the debasing defeat of the Estonian Right, and the shrinkeage of the Slovak centre are clear indications of this point.

We gain a completely different impression if we see *privatisation as a business deal*. 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 considerations, policy expediencies, fiscal or regional concerns can dominate, depending on the individual case. If there is anything to be generalised, it is the following: *if efficiency is a major priority, the pace for ownership change can't be politically calibrated.* The 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 interaction 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 sectoral 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 *set by scarcity* rather than by policies or rules in the transforming countries. Regulatory devices or various schemes can influence only short term prices; and arbitrary conditions only increase transaction costs or slow down the process. The quotation of the compensation notes on the Budapest stock exchange reflect our point directly: when the supply of assets to be bought for these increased, it proved to be a most interesting form of portfolio investment, whereas its price collapsed with the *Horn* government declaring its preference for deals in cash. However, the conversion coefficient of coupons to cash stabilised: on average 2.5 units of coupons equalled a unit of cash 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 (mal)practices has always been strong. 'Even the capitalists are doing it this way' has been a point of reference, and the manyfold 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 or on occasion, high inflation, money savings eroded and the entrepreneurial sector quickly gained against those taking prestigeous 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 and 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 comparable to that in Southern Europe, also accelerated this process. Freeing prices and wages has [...]ly retailored the socialist system of income distribution. Sustaining high or moderate inflation has continuously depressed the purchasing power of those living on transfer payment, while the lowest income groups could keep pace with price increases if they could remain active or partly active. Thus there is a minimal- in Hungary about 20 per cent - overlap of the unemployed and the poor: the latter are comprised primarily of the elderly living without family support in the coutryside and of people with large families.

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 earlier prominence. Massive immigration has helped to eliminate scarcity professions. Unions could organise major strikes only in extreme cases as in Russian mining after months without wage payments, or in exceptionally long periods of sinking real incomes as 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 charter 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 in a fairly *spontaneous fashion.*

5. 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 (insofar as private hard currency 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 (*Gurevich* 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 autonomous 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 *Keynes*ian 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 forms of savings*. With most of the previous administrative barriers gone, this means that saving in currency as well as in the form of real estate severely contrains the state's ability to depress rates of interest and thereby also to set other conditions of lending. Under these conditions crowding out by the Treasury becomes a realistic problem for transforming 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 can continue to rely on direct central bank financing as in the Czech Republic, Russia or Poland).

This might have several further repercussions. First and foremost nobody will be ready to buy the equities of companies if investing into zero risk treasury bills is more rewarding even in terms of return. Thus the *equity market* is bound to remain *rudimentary for longish periods* of time. This makes the reorganisation and privatisation of the banking sector a priority task. The sooner a country can manage this task the higher the probability of its gaining a lasting edge over ist fellows travellers and vice versa.

A further repercussion of weak intermediation and high inflation will be the lastingly *marginal* role of *institutional investors* like pension funds and insurance companies. By 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 risk sharing and tax return to all those willing to save and invest under uncertainity for long terms. *Harmonizing tax rates and procedures* with EU countries thus seems to be a *counterproductive* idea, since the specific difficulties of financial intermediation during transformation call for specific options in the Central and East European countries for quite some time to come. 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 lastingly high savings' rates which mirror the growing income differentials and equally growing personal uncertainties. Thus, saving is not dependent on the current rate of interest (in fact, negative real rates of interest on accounts in domestic currency induce conversion to hard currency or into fixed assets). Handled accordingly, this may even *enhance the efficacy of monetary policy* in controlling macroeconomic processes. But this holds true only if public authorities accept the constraints in setting the rate of interest and the rate of exchange put upon them by spontaneous processes. Those unwilling to accept these 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 the 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 strongest *disciplinary factor* inducing sound monetary policies in the transforming countries. The more they succeed in controlling fiscal deficits and inflation, the less burdensome this 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 availabilities 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 scarcities 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 sheet either 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 then not saddled with improper accounting practices. These and other serious flaws in the information system render insights fragmentary and allow for 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.[8] This is, of course, a direct encouragement for vested interests to organise themselves. While the socialist ideology has overemphasized 'public interest' there now is an inclination to negate it entirely and accept only representation of private interest as legitimate. Observance of law and of moral values is limited at best. Thus the *bellum omnia contra omnes* is also seen as normality in transfoming societies.

Finally both politicians and the public show limited if any interest to economics. Macroeconomic 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 circumstance pertain to our subject in three aspects.

a) There are widespread attempts to create new or to preserve old *monopoly positions*. Representatives of joint ventures have openly formed a lobby in Hungary and demanded (with some success) the enforcement of a 'buy national' principle in the new public procurement act. Parallel cases occured 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 transformating 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 *Hayek*ian competition among orders at the international level. But this is a medium to long run eventualitiy as yet.

8 With reference to Latin America some analysts (*Kádár* 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 per se 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 private [illegible] are hard to break up *ex post facto*. Moreover, the arificially strengthened vested inter[illegible] will possibly have an easy job in overwhelming a weak and underpaid civil service. [illegible] private property structure thus emerging will be a *long way from the ideal of a [illegible] economy* (and free society). This trend is particularly strong in the CIS and Southea[illegible] Europe.

b) Attempts to exempt entire sectors from competitive pressures on grounds o[illegible] 'economic considerations' in analogy to the EU also abound. Suffice to list the secto[illegible] where such attempts have made significant headway in Central and Eastern Europe[illegible] Farming is seen mostly as a sacred activity which has by definition more to do wit[illegible] retaining cultural identity than with comparing costs and benefits in the hope of a profi[illegible] The energy sector has traditionally been overcentralized and run on military rather tha[illegible] business principles. The danger of falling into the category mentioned first see[illegible] particularly grave here in the forthcoming privatisations. The pharmaceutical indust[illegible] can skillfully employ the argument of social sensivity in order to retain price regulation and central allocation (or lists of subsidised products) in order to crowd out undesirable foreign competitors. Attempts to emulate Western practices also emerge on the labou[illegible] markets. These were shown as futile above, but regulation does breed regulation[illegible] controls and offices, thus this area needs to be included in the present list. In the sphere of sevices, especially banking, but also airlines and railways, protection is as much the guiding principle as ever.

c) Finally, mention should be made of the *foreign trade régime and related areas*, where a lot remains to be desired before transforming countries can live up to the spirit of the WTO. Elaboration of the details requires a monograph (cf. *Winters*, ed. 1995). Suffice to note: the principle of competition, of creating contestable markets does not figure high among the priorities of transforming governments. Lack of vision and of power may equally explain why they give in to protectionist instincts so easily and in so 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 of the 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 weary 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 *Sandilands* (1993) 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 not done in transforming countries. For the time being, the inclusion of land among the [illegible]tive factors and the ways how public authorities could deal with it to foster [illegible]stment, is a second rank issue at best. Instead, limitations of various sorts abound.

a) In most countries a close to paranoic fear of vicious foreigners buying up the fatherland molds legislation. Even in the most liberal transforming country, Hungary, law 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 the 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, whith 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 *restitution* 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 'nowhere' 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 incalculable.

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 a seperate research project, but surely go beyond the scope of the present analysis. Our conclusion in policy would encourage public authorities to promote at least some competition transparency, attempt to constrain rent seeking and *support productive investment* by way of allocating land and counteracting - as far as possible - irrational and fundamentalist resistance to sensible investment. Preserving the propensity to invest belongs to the core of the entire transformatory 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 market economy, unlike the Peruvian version of capitalism, does not evolve without constructivist intervention. Since the totalitarian heritage is deeply rooted in the 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 monopolistic industrial interest. The latter structure may well have some catchup potential for backward rural societies for some time, not, however for European societies that have already evolved into the urbanised postindustrial phase of development. For the latter therefore this model would mean a cultural and economic setback. Thus we can join *Wagener* (1994, p. 655) in seeing the dual role of the state in building a *developmental consensus* and in maintaining *plurality* via competition as irreplaceable.

b) The neglect of both of these tasks may explain why the *self-defence* of inherited structures proved stronger as the policies aimed at transforming them in all of the postsocialist countries.[9] Lack of developmental consensus in postsocialist countries is also a sign of the reformist forces' inability to transmit their message in a creditable fashion to the population. The move of the shuttle to the left in most countries was more 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 transformatory *agendas* and *projects*.

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

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

reflections imply a *change in the priority of issues* in the menu of transformatory policies. Criticism of socialism starting from *von Mises*, and consequently also the transformation literature close to unanimously emphasized the property issue. Empirical evidence quoted above raises doubts about the omnipotence of the 'privatisation for efficiency' argument. Although no market economy and no free society can be based on public or collective ownership, the causality should and can not be simply reversed. In order to attain efficiency gains via privatisation transforming countries should emphasise *competition*. By the way, Western experience also is indicative of the crucial role of enhancing the commercial spirit in *all* companies when preaching privatisation. In other words, instead of quantitative indicators - e.g. the share of private property - *qualitative standards* are needed to evaluate wether or not transition is on the right track in a given country. In other words, it is the *development of competetive order which will be decisive for the outcomes of transformation*. In theoretical terms it also means that speed needs to be replaced by quality as a major indicator of success.

The central role of competitive order can be traced in terms of *time* and *outcome*. The more competitive a postsocialist society becomes, the lower is the chance of a reversal to the old *status quo* by any force, by any majority at any time. Similarly, the answer to the question of 'which capitalism' will be given by the *quality* of competitive order that crystallizes from the *interplay of regulation with spontaneous processes*.

d) The proper role of the state in promoting the process may be found between two extremes. It can not decree capitalism to be created in seven days as once *Dornbusch* (1991) wittily suggested. But societies are in reality probably not so free to choose as *Pejovich* (1994) in his idea of a market for institutions implies. The main task of economics and of policies alike is to avoid the Skylla of *interventionism*, inclined to replace spontaneity which it should only complement, and the Charybdis of a *hands off-policy*. The latter implicitly gives preference to the old structures, who can and in many cases do take over command if spontaneity remains unconstrained. Thus, recent calls to get back to the dual stategy of spontaneous privatisation and overall deregulation (*Csillag/Tömpe* 1995) may sound libertarian, but would in fact result in an Asian type of monopolistic *nomenklatura-capitalism*. There is a world of difference between such a *spontaneous outcome* and a *Hayek*ian *spontaneous order*, based on competitive institutions.

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