Governments in Business and the Fate of De-Etatization

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Milton Friedman once remarked that "you must separate out being pro-market from being pro-business", and continued: "the two greatest enemies of the free enterprise system, in my opinion, have been on the one hand my fellow intellectuals, and on the other hand, the big businessmen – for opposite reasons".

Today, it seems, the governments of new Europe are often "pro" their involvement in business – directly through state-owned-enterprises (SOEs) or indirectly through regulating entry and exit into markets.

The specific problem of post-communist Europe is that, not too long ago, reform leaders succeeded in forcing the governments out of direct, firm-level involvement in economic activities, and simplified tax and quasi-tax ("business environment") regulations to unleash private initiative and prosperity. The philosophy of those reforms, as far as I can judge as a participant and witness, was no fancier than Smith's "peace, easy taxes, and a tolerable administration of justice" (1955). The individual application of that philosophy was a challenge, but the processes were relatively similar, as one can read in this volume.

As recently as 27 years ago, government enterprises typically contributed to above 97% of the individual countries' GDP. Today, only Cuba and North Korea are in that situation. By 1998, new Europe's average government share in GDP was reduced to 40%, and to 20%-25% by 2010. The progress, besides in Croatia and Slovenia, with 30% and 40%, respectively, was so significant that EBRD stopped measuring the ratio.

That was achieved not just by privatization, which in itself was a success, irrespective of the moral criticism at the time (and the still long-lasting attempt to accuse and take legal action against privatizers). The underlying process was one of de-etatization of the economies.[1]

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The process was profound and multi-faceted. It included all types of privatization that economists ever invented: a broad-scale restitution of previously nationalized factories, land, and forest, an equal treatment of the remaining public and private firms, of foreign and domestic investment and workers, an early elimination of price controls and subsidies, of export-import privileges, restrictions, and

[1] The controversies of the process in my country I summarized in: Krassen Stanchev, Political Economy of De-etatization in Bulgaria (available at: http://ime.bg/pdf_docs/02.pdf) but first published as "The Political Economy of Denationalization in Bulgaria" in Suedost Europa, Vol. 53, 2005, Heft 1, S. 80-95.

duties, and at least partial privatization of pension systems, health care, and education. All those tremendously improved the business climate, best measured by levels of economic freedom. Since 1996, new Europe countries moved from the ranks of "somewhat" free to economically free countries, scoring most often among the top 50 most-liberated economies. Some of them, like Georgia and Estonia, even lead globally. The full restoration of private property rights and economic political freedoms has led, in Adam Smith's words, to the "comfortable administration of justice", still not the best in the world, but inducing prosperity.

As a result, the countries are already in the "club" of richer countries (the upper segment of the "middle-income" economies), real GDP per capita increased no less than four times, individual economies' share in global exports jumped about seven times on average, and even the "poorest" of these economies, that of Bulgaria, is richer than 76% of the countries in the world. No surprise that our countries attract economic migrants from all over the world.

Against this unquestionable progress, there are signs of political regression to habits of the past. That regression is based on scattered attempts to get government and politics back in business with nationalizing pension schemes, limiting judicial independence, benefiting existing (and creating new) national champions, and even re-nationalizing some activities and companies.

This volume of *4Liberty.eu* looks at those signs from a broad political and economic perspective. Our approach is different from that of the recent EU Commission's Institutional Paper on "State-Owned Enterprises in the EU: Lessons Learnt and Ways Forward in a Post-Crisis Context" (July 2016). The authors are not limited by diplomatic correctness and look at the microeconomic and politico-economic essence of anti-reforms in their respective countries.

The overall situation, if we go back to Friedman's remark, is that the intention of governments to be pro-SOE poses a threat to the pro-market foundations of the prosperity of our countries. Both intellectuals and SOE-interested parties advocate such backward political developments.

One of the major concerns of the authors is not only to explain how limited (but still significant) pockets of SOEs and government ownership (mostly in energy, oil, transport, and municipal sectors) impact economic policies. They also highlight the negative spill-over effects on transparency, the rule of law, and overall political order. Besides the reconstruction of history and descriptions of current individual country challenges related to SOEs, the authors of the volume venture into recommendations on how not to recreate (in Germany or in Georgia) the economic and political evils of the past.

Those recommendations are not for governments and politicians, but for reform-minded and entrepreneurial members of the public on what they should demand from their elected representatives. However diverse the countries we cover, one can borrow insights from others' experiences. ●

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