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COMPETITIVENESS OF SERVICES OF GENERAL ECONOMIC INTEREST IN HUNGARY AND THE EU

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Introduction

As most of the goods have external impacts, their individual and social benefits and costs differ, thus producing them by market rules would cause a loss for the whole society. When the goods for which external impact exceeds internal impact are distributed by market allocation than a social loss is occurred because of market failures and also if goods with internal impact exceeding external impact are not allocated by the market, a government failure occurs.

When goods are classified, individually consumed goods are treated apart from the more complicated services and the two main groups of services are such as individual (private) and external (public) services. The late can be characterized by the differing individual and social benefits / costs. As a consequence, those goods are not provided at a satisfactory quantity level by the market, thus there is a need for the state to intervene. Following the EU terminology, services with external impacts can be divided to subgroups such as non-market services, services of general economic interest and services of public interest, the late is related to keeping of public order and legal protection, is financed by taxes, is regulated by law and is provided by state employees. Non-market services are health care, education and social services or transfers (benefits). In many countries the supply of those services has been insufficient so by intervention, the state has regulated provided and financed them. The same happened to services of general economic interest, for example water plants or railway companies are mostly state-owned.

By summary, traditional way of treating external goods meant financing by public resources for non-market goods, state ownership for services of general interest and public ownership together with financing for public interest services. For the above mentioned three groups of services a direct state regulation was made (by annual budget, price regulation of Ministers, by commend to the management of state-owned companies etc.). By the end of the 20th century, developed countries recognized that state administration and political voting could easily fall a prey to lobbies, consequently state must be tied to mast as Odysseus was for not to follow the siren voice of lobbies. According to the modern regulatory theory, instead of direct regulation a constitutional or strategic regulation should be done while retiring from tactical regulation.

Regarding non-market goods, advances in pension system are more rapid, then in health insurance. When moving from a system which is financed on PAYG (Pay-As-You-Go) basis to a system that is advance funded, the state is regulating in a constitutional way by forcing all of its citizens to pay (earnings-related) contribution to their individual account which is kept in a chosen pension fund. In that case incomes are not transferred by the state from one age group to another and there is no possibility for the state to decide about contribution rates, the state is retiring from direct regulation and income distribution.

The same is about services of general interest where the state does not want to own any more the assets of services of general economic interest but rather sale them, neither wants to provide those services. State is retiring from being capital owner. For monopolist services of general economic interest no market simulating tools are used, but rules are fixed to create real competition even on that special field. The remaining operative regulation is the task of independent regulatory authorities, such as the independent national bank for example with its in advance declared monetary rules. Comparing Hungarian and EU practice is interesting, because Hungarian regulation is still old type, direct regulation, while the European Union uses post-modern rules. Let us see it in details!

II. Hungary: a traditional way of treating externals of services of general economic interest

Services of general economic interest are provided by natural monopolies meaning that once railway or wastewater system is developed probably no other, parallel system will be developed by others. Monopolists intention to provide less services to a higher price is not socially acceptable, thus in a traditional model the state is using price regulation by simulating competition, cut prices to force providers to a higher level of production.

Appearance and growing of natural monopolies originate by the end of 19th century. Natural monopolies generally appear in the field of services of general economic interest, where growth rate of output excesses the growth rate of costs. Those services of general economic interest are widely present in our life, e.g. water, wastewater, electricity, telephone, railway, road and postal system.

First strong, one-product natural monopolies are investigated, strong monopoly being determined as where demand curve crosses marginal cost curve far below the technical optimum. That occurs probably because for common goods demands are summed not horizontally but vertically. The vertically summed demand curves cross the marginal cost curve where the late is below the average cost. As a result, the state is facing with the basic challenge of what kind of regulation is adequate when supply at the given marginal cost is at a sufficient level while for natural monopoly it causes losses than they need subsidies. Simulating competition with the help of prices is always risky and problematic as providers get the necessary information and so may mislead authorities which are double-faced as they protect the interest of producers and consumers at the same time. There is a strong need to move to real competition incentives.

III. European Union: toward a modern way of treating externals of services of general economic interest

The regulation concept of the European Union is competition incentives instead of competition simulation for services of general economic interest. EU directives and decrees include regulation of railways, telecommunication, airways**,** electricity and postal services. As the best way for cost reduction is enhancing competition, I investigated the opportunity of competition i.e. the level of freedom in all of the concerned fields. For railway the services provided by different suppliers may differ in quality and operation of the railroad line is separated from the shipping or transportation activity. For electricity, traders may buy the same quality electricity from different generating plants and may sell it at different seasonal and quantity-related tariffs. For water-ways, the water can be bought only from one water-works and the opportunities of the traders are limited to determine tariffs and tariff packages. Free access to airports is similar to that to railroad lines. Telecommunications are like railways as many different services are included in.

EU directives and decrees up to 2000

EU directives and decrees about free access to capacities in the field of general interest economic services	Directive, decree	Key words of directives or decrees
96/67/EEC directive on air transportation	Council Directive 96/67/EC of 15 October 1996 on access to the groundhandling market at Community airports	Slots must be allocated in a non-discriminative way by coordinators, scheduled flights have priority, slots can be exchanged, access can be free or paying, imposing service providing duty to airports serving peripheral regions can be made.
95/93/EEC commission decree on air transportation	95/93/EEC on common rules for the allocation of slots at Community airports	
2408/92/EEC commission decree on air transportation	Council Regulation 2408/92/EEC of 23 July 1992 on access for Community air carriers to intra-Community air routes.	
91/440/EEC directive on railways	91/440/EEC of 29 July 1991 on the development of the Community's railways	Railway companies must operate separate from state budget and state ownership. Railroad lines capacities must be allocated by a commission in an efficient way and without discrimination.
95/19/EEC directive on railways	95/19/EC of 19 June 1995 on the allocation of railway infrastructure capacity and the charging of infrastructure fees	
90/387/EEC directive on telecommunication	90/387/EEC of 28 June 1990 on the establishment of the internal market for telecommunications services through the implementation of open network provision	Free access for new comers must be ensured also, cost based tariffs must be elaborated, the accounting system must be authorized by the state, costs of providing universal service to be shared by telecommunication companies.
97/33/EEC directive on telecommunication	Directive 97/33/EC of the European Parliament and of the Council of 30 June 1997 on interconnection in Telecommunications with regard to ensuring universal service and interoperability through application of the principles of Open Network Provision	
97/67/EP and commission directive on postal services	97/67/EP and commission directive on common rules for the development of the internal market of Community postal services and the improvement of quality of services	Fee for sustainable services not to exceed 5 times the charge of the fastest public delivery standard
97/271/EEC directive on wastewater services	The Urban Wastewater Treatment Directive	
COM (97)49 final and COM (99)271 final on water services	Water policy	Used prices aim at regain full costs
96/92/EC commission directive on electricity services	Directive 96/92/EC concerning common rules for the internal market in electricity	Member states to establish and enhance competition

Public interest must be represented by the state and it has always been its role since state as an organizational form appeared. But it is not indifferent how state is accomplishing this role. By now it is declared that services of general economic interest should be provided as universal services. It means that equitable access at a reasonable price must be guarantied for all. Originally in the 19th century the society represented the public interest by state ownership and direct intervention, currently a wide range of privatization forms is used to enhance competitiveness. Further element in the public sector reduction process is that daily regulation is not done by state administration (for economic interest groups not to benefit through politics) while legislation is still made by the Parliament. Independent regulatory authorities have been established for regulate human investments (health and pension funds) and commonly used infrastructures. The independent regulatory authority may be characterized by the followings:

– its members are not nominated by a government controlled corps, but an independent organization like Parliament or the president of the republic,
– it is financed by earnings collected in a normative way from the service providers,
– elaborates decrees and judges,
– decides about authorizations, and
– price regulation,
– has control over efficient and non-discriminative capacity allocation,
– protects consumer rights.

IV. Measures to be taken in Hungary

Concerned EU directives and decrees and also economic characteristics of natural monopolies are aiming at as a main goal of regulation to ensure the opportunity of competition by no means. That means the followings.

– Owners should be forced by law to rent lines (capacities) owned by them.
– Rental fees should be cost based, and must be calculated by a calculation scheme determined and controlled by authorities.
– Narrow capacities must be allocated by clear rules, efficiently and without discrimination by an independent authority if those capacities are owned by only one owner. If the owner and the service provider is the same, than it is up to the owner itself to allocate capacities, but with an opportunity to legal remedy by the authorities.
– When allocating capacities, public interest services providers have an advantage.
– Reserve capacities must be allocated too.
– For rejected claims reasons must be given and also a probable date of getting capacities must be pointed out.
– Capacities must be used, only used capacities may be extended and the extension level must be regulated.
– No pure state-owned capacities to avoid distortion. Experiences show, that pure state-owned capacities have deleterious effects on competition.

– Because public utility service providers may be forced to supply the occurred loss must be compensated.

V. Conclusion

Market allocation of those provided services which have external impacts is generally not optimal, so attempts were made to ensure them through political market in the form of common goods. The last few decades showed that market failure could turn to government failure if intensive state activity. As a solution for treating external goods, independent regulatory authorities must be established which are not under lobby groups' interest control through the Parliament. The two extreme solutions are state owned providers with governmental regulations and private monopoly without any regulation. An ideal design could be found between those two: *competing private monopoly with independent regulation*.

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