THE IMPACT OF THE STATE OVER THE COMPETITIVE ENVIRONMENT

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ABSTRACT
It had "to come a crisis" in order to understand that the slogan "let the economy operate under the rules of market economy", so dear to some, it is not so true, so that all states, even those declared with a totally liberal ideology (such as USA), intervene in the competitive environment to correct some irregularities resulting from free market game, to maintain or restore competition in the market and to save some sectors. The State sometimes substitute the market, influences or arrange for the proper functioning of the market. The State "does not play, but establishes" rules of the game", the indirect influences becoming dominant. No structural analysis of the competitive environment is not complete if it does not provide a diagnosis on how current and future policy of public power, at all levels, will influence the structure and evolution of branch..

KEYWORDS: *market economy, direct intervention, indirect intervention, the public sector.*

JEL CLASSIFICATION: *L21, M21, O12*

1. INTRODUCTION

After we awoke from the feeling of beatitude we experimented in December ’89, being happy that we have “liberated ourselves” from the our state’s tyrannical control over the economy, we started to look more careful, in the next years, around us and all we could see were problems everywhere: financial gridlock, the lack of financial markets when it comes both to “inputs”, but especially of “outputs”, massive activity downsizings and, as a consequence, unemployment and powerful social conflicts, ridiculous prices (“luckily”, BNR- Romanian National Bank - cut up four zeroes), difficulties in acquiring loans because of the high rates of interest (do you still remember the annual interest rates of 400%?).
When we thought that we overcame these problems, with the cost of great efforts, little by little, the companies that managed to overcome the ordeals of the transition towards market economy, reaching 2008 (when our economy was “in full swing”, whirring like an American engine, they didn’t have much time to their disposal to fully enjoy their success, noticing that U.S.A, instead of making us to attain the economic performance, it brought us a financial crisis. This is exactly what we’re missing! And the salvation from the current economic-financial crisis is expected to come from…our government.
We needed “a crisis to come to us” to finally understand that the slogan “**we’ll let the economy run according to the rules of the market economy”,** which is so dear to some people, isn’t that true, considering that all the states, even the ones who had previously declared to have a fully liberal ideology (like USA), intervene inside the competitive environment in order to correct some malpractices resulted from the free play on the market of some companies, in order to maintain or re-establish the market competition, to save some fields of activity. Sometimes, the state substitutes the market, influences it or **watches the good functioning of the market**.
Evoked by J. M. Keynes in the ‘30s, the state interventionism idea claims that the governments must use fiscal and monetary measures in order to moderate the negative effects of the economic and financial crises. Even if not a long time ago, the state went to the wall, now it became the most

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important player from the economy starting with the last year, in the autumn, when the failure of Lehman Brother's bank generated a true shock on the markets.

The state can influence directly or indirectly various aspects of a field of activity's structure. The state can be a client (for example, pointing at national security with its acquisitions) or it can be a supplier (selling some raw materials which are exclusively controlled by the state) in various sectors, or **it can influence the structural evolution of the activity field bringing under regulation** some key variables like: gaining access to the respective activity domain, the competitive practices, the profitability. The regulations regarding the quality and the security of the products, the environment's quality, the customs' rights or facilities offered to various categories of investors, etc, are less direct ways in which the public power's influence can be exerted. For example, the various regulations regarding the environment quality, even if they most certainly allow reaching various social objectives, they require substantial expenditures with research and further verifications, this being an impediment to the entrance in the sector of some new players.(Porter,1985). Referring to the international competition, it also faces various impediments related to the national public power, most of cases under the pretext of protecting the national enterprises.

With these aspects in mind, we believe that no competitive environment's structural analysis of the competitive environment is a complete one, if it doesn't involve a diagnostic over the way in which the current and future policy at every tier will influence the structure and evolution of the respective activity sector. In the process in which a certain enterprise elaborates its own strategy, we can think of the state of one of the "main players" that can encourage or, on the opposite, hinder an effective accomplishment of the strategy (Alionat, 1998).

2. TYPES OF STATE INTERVENTIONS

The state can influence in a direct or indirect way a firm's behavior (Cârstea et al., 2002).

2.1. The direct intervention

An extreme case in which the state intervenes in the competitive environment consists into a total substitution of the market's function by the state, the central authority imposing each company the quantities of products that it must produce, the clients and the prices at which it must sell its products, the providers from where it must stock up. This is the case of the super centralized planning, a well-know situation in the case of the ex-socialist countries. But this situation can also appear in the case of a market economy, at a lesser extend, for example in the case of some activity domain related to the extraction of some raw material of strategic importance, of a penury of an essential product, in the case in which the market acts too slow and it can lead to results that may oppose the state's objectives or that may be socially inacceptable.

The main type of direct intervention of the state in a market economy is represented by the price control, respectively the setting by the state of a maximal price, the motivations of this type of intervention being the following:

- the price control can be established out of conjectural reasons in order to fight with the inflation. After 1990, Romania, for example, experienced various stages related to the state's intervention in establishing the prices. Even if the general trend is one of complete liberalization of all the products and services' prices inside our country's economy, both out of reasons related to blocking some inflationist phenomena, and out of social reasons, currently there are some domains of activity in which the prices are completely free, in which the prices are under the state's surveillance and others in which the prices are imposed by the state.
- the price control can be maintained for a certain period of time out of social reasons. As a rule, when it comes to a crisis period or to profound changes inside a country's economy (as it is with Romania for the time being), it's perfectly justified a price control when it comes to products or services which are necessary for the entire population of the country (for example, a price

control of all type of energy), taking into account that these products' price liberalization could lead to grave social disturbances (Deac, 2009).

2.2. Indirect intervention

The state can intervene in the competitive environment in an indirect way, acting over the forces that impose the equilibrium of the competitive positioning on the market. In this circumstance, the state obeys the market's mechanism, but it can change the equilibrium point intervening over the supply or demand. This way, changing the V.A.T. percent belonging to a certain product, the state modifies the price and volume of the sold products. In the same time, the public power can use the indirect taxation in order to promote or hinder the usage of certain products categories.

Inside the European Union there are some special regulations about the indirect intervention of the member states over the competitive positioning of the companies on the market; they legally don't have the power to direct the market. In this respect, the article 91 of the Treaty from Rome declares that the state's interventions altering or tending to alter the competition on the market and affect the commercial exchanges inside the unique European market are incompatible to the unique European market.

But, inside a market, in a round-about way or not, the state indirectly intervenes in order to set or at least to influence the rules of the competitive positioning on the market, setting some regulations for the following aspects:

- **Usage regulations**. All the commercial variables were subjected to more or less detailed regulations. The product may be subjected to some quality, pollution, security norms. Likewise, the state can take actions to improve the degree of informing of the potential consumers (for example, it's compulsory to make mentions regarding the ingredients on the product's label. These regulations' purpose was to protect the customers' best interest and to avoid the damaging extern effects (pollution, noise, etc), as they're profoundly social. But these regulations, no matter whether they belong to a certain state or if these regulations are common for several states (in the case of the states that belong to the European Union), they influence the rules of the competitive positioning at the national and international level.
- **Dominant positions**. The cases of authentic monopoly are rare when it comes to economically developed countries, but a company may have a dominant position on the market, without being the only seller of that product. Having in mind the inconveniences of the absence of any competition, in all the economically developed countries the state intervened in order to prevent or to eliminate the situations in which a company has a dominant position or, at least, to limit its harmful effects.

In U.S.A, more than a century ago, the legislator intervened specifying that "all the persons who monopolize or try to monopolize making alliances or gathering with one or more persons, wanting to control a certain sector, thus affecting the commerce or the business exchanges between various states of the USA or with other states, will be considered culpable of a certain offence". (Sherman Act 1890).

These kinds of regulations existed in the Western Europe after the Second World War, but, before the unique European market was created, inside U.E.'s countries took place a regrouping of the independent companies, in such a manner that they constituted some societies and larger, more powerful groups, capable to face the competition inside the European unique market, the notion of dominant position being related to another dimension. In fact, after 1990, all the operations tending to concentrate several companies, acquisitions, mergers, will gain a communitarian dimension, being under the control of the European Union, in order to prevent the situation of dominant position (monopoly), ensuring a balance between maintaining a free competition, necessary for the dynamism of the European economy and the concentrations meant to improve the structure of the domain of activity and to consolidate the international competition. (Garibaldi, 2009)

In our country, the aspects regarding the prevention of gaining a dominant position (respectively a monopoly) are in Competition Council's line, being regulated, but that problem that arises here is the one of defining the cases of dominant position, respectively of defining the level from which the market share a company owns makes it dominant and, more than this, delimiting the pertinent market.

- **Agreements.** The European tradition is much more permissive regarding the various agreements between companies than the American one. A regulation regarding the agreement between companies was elaborated after the Second World War, in the majority of the Western European countries. Moreover, in the European Union there are some regulations regarding this aspect (Article 85 of the Rome treaty condemns the agreements between sellers whose purpose is discouraging the competition and especially these agreements regarding the "setting in a direct or indirect manner the price of buying or selling, limiting or controlling the production, openings, etc.), but these legislative provisions from Europe are quite different from the American ones.

Therefore, in USA, the explicit agreements between companies referring to the price or referring to sharing the market are strictly forbidden, while in Europe, the general rule is to forbid the agreements between companies, but there are some exceptions.

3. THE PUBLIC SECTOR'S IMPACT OVER THE COMPETITIVE ENVIRONMENT

Beside the previously described types of state intervention into the competitive environment, the state's presence through the state-owned companies (public enterprises), in some activity domains, next to the private companies, change the rules of the competitive positioning on the market.

If we refer to our country, even if in the period of transition to the market economy there appeared a lot of private enterprises in all the activity fields, either through the privatization of the former state-owned companies or through setting up new companies, there are just a few domains in which state-owned and private companies coexist and in which the first ones posit a real danger to the private companies. However, there are still some activity domains in which the public ownership is dominant and the policy of mass privatization of economy, under the pretext of that company's lack of profitability and this company's losses can lead to disastrous situations like the weakening of the country's defending capacity. We must highlight the fact that in any economically developed country the state is active on the market through the public companies and they can theoretically appear in which activity domain, but practically the industries in which the public sector is traditionally important are the following: (Deac & Cârstea, 2010)

a) The industries related to natural monopolies;
b) Important strategic industries;
c) Declining industries;
d) Heavy industries;
e) The "high technology" industries.

3.1. Industries related to natural monopolies

"Natural monopoly" is an industry in which it can only exist a single tenderer because the minimum increase in efficiency is equal or superior to the production that can be absorbed by the market. The minimal increase in efficiency corresponds to the production capacity for which the costs' curve is under the revenue curve.

This often happens when it comes to small countries, where the internal market is a limited one, this reasoning justifying the fact that the ownership of some domains of activity still belongs to the state (or are even nationalized). Some examples are: electric energy distribution, railroads, etc, the state owning the monopoly for this industries in the majority of the small countries and in Western Europe).

3.2. Important strategic industries

We're talking here about the industries that are crucial for a nation's defense and security. In other terms, they represent activities the army needs in conflict circumstances and which could be called into requisition without risking interfering with clashing interests. On this account, in the great majority of countries, including the ones that declared to have a “liberal economic policy”, we still come across public enterprises in the following domains which are considered to have a strategic importance for the national independence: weaponry, transport (railroads, airlift, etc), siderurgy, energy (coal, mineral oil, natural gas), communications (telecommunications, post stations). Unfortunately, in the frenzy of quick privatizations, many of these strategic industries were sold to other companies for moderate prices and the negative effects can be already seen.

3.3. Declining industries

Obviously, the state isn’t interested in all the declining industries and it intervenes only in case in which an industry’s disappearance oppose the state’s interests (be it a strategic interest, social, foreign trade, etc.).

In general, most of the times the social interest plays the most important role. It can be related to activity domains whose cease of activity and the employees’ lay off could unbalance the economy of the entire area. Currently, our country’s economy is rich in examples like that, the wrong economic policy from the ‘90s, the hesitations and the mistakes regarding the process of privatization of the former state-owned companies, the fact that the state ceased offering its support to those companies which in fact were under its ownership, etc, not only brought to the economic unbalance of some geographic areas of the country, but it also brought to “dead areas” from the economic point of view. This aspect is a completely paradoxical one, if we have in mind that in the case of the countries from Western Europe it’s recommended to nationalize these domains of activity, and the government often grants subventions in order to maintain the activity of these activity fields.

In many European countries, industries like siderurgy, mining, naval constructions, etc, have been substantially encouraged by the state in order to continue its activity, and in some cases the government is even directly involved in these activity domains. A typical example is represented by siderurgy, a domain in which we’ve assisted, after the Second World War, at a developing of the public sector. (Deac et al., 2009)

3.4. The heavy industries

In the case of some developing countries, the industrialization is considered to be a stage in which is covered the development of some “main industries” like: siderurgy, petrochemical industry, building materials, raw materials extraction. The problem is that launching in this industry involves substantial investments, which are often inaccessible to private investors. The government, which doesn’t want these investments to depend on foreign societies, is often forced to involve in these kinds of investments.

An example in this respect is represented by siderurgy, in this very moment being hard to understand the “crisis” experimented by this activity domain not taking in consideration its political dimension. The Western siderurgy decline is not related, contrary to a widely spread idea, to the reduction of the industrial outlets. The statistics show that these products’ demand increased from a period to another (831 millions of tons in 1995, 900 million tons in 2000 to 1.22 billion tones in 2009, when, as a consequence of the crisis, was recorded a decrease of 8% compared to the previous year), and the studies done indicate a rhythm of annual increase of 2-4%, recorded because of the increase in some countries as U.S.A., China, European Union and Japan (in 2010 the Steel World Association forecasting an increase of 9.2%). However, this evolution shouldn’t make the new entries in this sector too hopeful about the developing of some new capacities of production. This evolution tends more to accentuate even more the “politicizing” of the siderurgy at an international level (Deac & Cârstea, 2010).

3.5. "High technology" industries

Without enlarging too much upon the contradictory aspects related to the concept of "high technology" (the traditional industries confront with complex technological problems they have to solve, as well), these industries refer to those activity domains in which the effect of developing and research is relatively important, and the technique used by them suffer a rapid evolution. As a consequence, these industries are, through their own nature, extremely risky, the investments done in these areas having small chances to be recuperated (for example, the aeronautic industry, the nuclear industry, etc).

For example, in aeronautic industry, a study designed by Boeing Society highlighted the fact that for an average commercial plane of medium capacity the period in which the investment is recuperated is of 12 years, considering that a number of 700 planes were sold. Furthermore, if we have in mind the price of approximately 300 million $ for the model Airbus 380, the largest passenger plane held in mass production, it's easy for us to deduct the amount of capital needed for it to be produced. (Deac & Cârstea, 2010)

From these two examples alone it results that it's extremely difficult for the new companies to enter in this activity domain. The risks are so substantial that no activity in this domain could take place without a direct or indirect government intervention.

In fact, the best example in this domain is represented by the creation of the European association "Airbus –Airspace", through a political decision taken by the government, in order to deal with the competition formed by North-American private companies like Boeing, McDouglas, which were also strongly backed-up by the U.S.A. government.

4. THE STATE'S ROLE INSIDE THE INTERNATIONAL COMPETITION

If we choose to consider the international dimension of the market, the state can be said to influence the competitive environment, the world competition facing various impediments related to the national public power, most of the time being under the pretext of protecting the national companies, or because of various direct or indirect benefits given to national enterprises. These impediments to competition and ways to help the national companies take different forms, starting from custom duties and quantity restrictions required to imported products, preferential public orders for the national companies, the public power's insistence for the activity of research and development to be performed inside the country's borders or that all the components of the product to be manufactured locally, a preferential fiscal treatment, to the traditional subventions granted to the national companies to deal with the international competition, or a direct commercial aid at a national level (imposing the necessity to buy a certain company's products) and at an international level (some exports, result of negotiation between the states) (Ducreux et al., 2009).

For a long time, the states' economic development depended a lot on the initial endowment in factors of production (raw materials, manpower, capital), on the accumulated experience and the innovation capacity. Currently, faced to the globalization phenomenon, it isn't enough for us to rely only on this initial endowment, on the past's inheritance or on certain achievements of some economic agents. It's more and more necessary that any state discover and develop its own competitive advantages when facing the international competition.

In order to optimize our presence on the international scene, each state must mix in a harmonious way three series of initiatives:

a) **Offensive actions for making its territory more attractive;**
b) **Defensive actions to fight against disloyal competition;**
c) **Negociating actions at a supranational level.**

a) In order **to make the territory more attractive,** the public power from any state, and much more from our country (having in mind the practical impossibility of our country to develop without an external help, and our country's integration in the European Union), will have to consider six categories of policies, regarding the following aspects:

- Taxation;
- Infrastructure and the importance played by the public sector;
- Forming the stuff and the activity of research and development;
- Investment's promotion;
- Enterprises' concentration;
- Social protection and maintaining the consensus.

The mere enumeration of these aspects and confronting them with the economics' practical reality prove that our country has still a lot to work regarding it's territory's increase in attractiveness, both from the legislative point of view (clear and secure regulations in the taxation domain, regarding the promoting of both internal and external investments, regarding the social security, etc), and from the practical point of view

(infrastructure' developing, re-launching own activities de research and development, developing the education system, etc).

b) Regarding **the defensive activities taken to fight against disloyal competition**,

we're talking about state-performed actions in order to fight against phenomena of social dumping and monetary dumping.

For a company involved into an international competition, the social protection can create a irrecoverable handicap, particularly in the case of those industries in which the costs with the work force represents a high percent from the total cost of the products, in case in which some states try to exploit to their national companies' benefit the 'advantage' of lacking social protection (low wages and income tax, the lack of social security or even using children as work force).

While in the economically developed countries we can talk about a certain level of levelling of the salaries and of the various taxes related to the work force, of the work conditions, of social security, etc (if we refer to Western Europe and U.S.A., there are some differences between them, too, for example, the unemployment wages and the level of the minimum wage are much higher in Western Europe compared to United States of America), when it comes to developing countries the situation is different, these aspects fluctuating from a country to another, being a lot different from the economically developed countries (the salary is low, the work conditions are sometimes subhuman, the working hours are excessive and sometimes children as using as work force).

We think it would be ridiculous to accuse the least developed countries of social dumping and disloyal competition, having in mind that the initial development of the developed Western countries benefited from low salaries and even from the exploit of children as work force, and considering that the reasoning of the well-spread form of cooperation in production between the enterprises belonging to economically developed countries and to the less developed countries is the low cost work force from these countries.

In fact, the reputed specialist Maurice Allais, a Nobel prize in economy laureate, believes that to talk about the social dumping and disloyal competition when it comes to less developed countries is a extremely ill-founded argument. Each country has its own social structure and it can't be talked about social dumping and disloyal competition but in those cases in which a country's social advantages would be voluntarily maintained at very low levels (Dusgardins,1997).

Referring to monetary dumping, its very difficult to determine if a country is practicing or not monetary dumping, and the technique of purchasing power parity only brings some limited information regarding the fact that the rates of exchange of a certain country corresponds to the reality or it's just a speculative situation.

If we refer to less developed countries, like our country, the lesser the productivity, the more probable is that the rates of exchange are inferior to the parity of the purchasing power.

c) Related to the **actions of negotiation at the transnational level**, the government can play an important role, directly influencing the international competition, through an active presence inside the various transnational organisms and reunions, when it comes to signing some agreements regarding to facilities granted to certain states (custom duties exemptions, eliminating the contingencies, etc.), establishing the production quota (like in the case of negotiating the conditions of adhesion to UE), and with the occasion of establishing common programs of development and mutual aid given to some countries out of the funds belonging to various international organisms, encouraging the Romania enterprises to participate at these programs (the typical case is the one regarding attracting funds from the communitarian programs, the paradox being that the sums absorbed are smaller than the sums of money with which we pay our membership dues to the European Union.)

5. CONCLUSIONS

In conclusion, we can claim that the role of the government as a competitive vector wasn't diminished, as some pseudo-specialists of the market economy wrongly assert; on the contrary it can be said that it has been increasing. On the other hand, it must be clearly understood that this role changed and it must change some more compared to the other periods of time, an aspect that is more obvious when it comes to the former socialist countries. Thus, the state **"establishes the rules of the game", its indirect influences surpassing its direct ones.**

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