

News / Information

IV Chemnitz East Forum

“Business Ethics in Central and Eastern Europe”

2 to 5 March 1999

This year the IV Chemnitz East Forum again brought together about 120 scientists and company representatives. The conference under the auspices of Rolf Schwanitz, Minister of State at the Office of Federal Chancellor Aufbau Ost, dealt with questions of business ethics in the transformation process of the Central and East European countries in transition. In 10 workshop with about 50 presentations the participants discussed a wide area of questions.

The framework of the academically as well as practically oriented discussions was formed by the keynote presentations of Prof. Henk van Luijk (Nijenrode University, The Netherlands) on „Business Ethics in Europe: A tale of two efforts“, Prof. Sheila Puffer (North Eastern University Boston, USA) on „Finding common ethical ground in Western countries and Eastern Europe“, Prof. Marie Bohatà (Charles University Prague, Czech Republic) on „National and cultural perspectives on business ethics: Perspectives from the Czech Republic“ and Dr. Vadim Radaev (Russian Academy of National Economy, Russia) on „Business Ethics in Russia: Contract enforcement and violence in the late 90s“.

At a panel discussion on „Business Ethics in Central and Eastern Europe: Convergence or Divergence?“ chaired by Prof. Horst Steinmann (Friedrich Alexander University Erlangen-Nuremberg, Germany) participants from Poland, the Czech Republic, Slovenia and Russia discussed current tendencies of business ethics in their countries as well as developments of convergence and differences against Western standards.

Plenary sessions and panel discussion showed that the simple transfer of Western norms and standards to the transition countries in Central and Eastern Europe will not work because these standards are not related either to the specific of transformation or the historical and cultural contexts in these countries. Additionally it was shown that under the specific conditions of the transformation process very specific patterns of ethical behaviour have been formed and are formed which hardly correspond with typical Western stereotypes.

The workshop sessions dealt amongst others with economical and political aspects of business ethics, general and specific questions of ethics in enterprises, ethical values of managers and entrepreneurs and ethical problems of East-West co-operations. Additionally the question has been discussed which contribution

university education as well as management training and human resource development could make to develop a basic inventory of common ethical norms and to apply it to East-West co-operations.

In further panel discussions ethical conflict areas in the enterprise practise were addressed, such as ecological and social developments, trust building between East and West, and conflict vs. compromise between management and workers council in Chemnitz engineering.

For the first time a special program for company representatives took place in parallel to the academic program at the third day. This program was addressed especially to representatives of small and medium sized enterprises situated in the Chemnitz region and included workshops on legal conditions of business in East Europe, about possible sources of counsel and financial support, and on how to deal with cultural differences.

The special program also included the official presentation of the TU Chemnitz Commerzbank- Award '98 for the "Integration of the Transformational Countries in Eastern and South-Eastern Europe" to students and junior researchers. This annual award is designed to stimulate the research engagement with questions of the developmental processes in Central and East Europe.

Also for the first time a pre-conference workshop was realised. In two groups the 50 participants discussed the stakeholder influence in Central and East European enterprises.

For supporting the conference we express our thanks to the Saxon Ministry for Science and Art, the city of Chemnitz, the Chemnitz University of Technology, the Friedrich-Ebert Foundation, the Deutsche Forschungsgemeinschaft, the Robert Bosch Foundation, the Marga and Kurt Möllegard Foundation, the Gottlieb Daimler and Carl Benz Foundation as well as to the numerous private sponsors, especially the Commerzbank Chemnitz, the Sparkasse Chemnitz, the Volksbank Chemnitz, the SIEMENS AG, the Copia GmbH, the TEQ GmbH and the Förderzentrum Mittelsachsen GmbH. With the support of these institutions a conference of high quality could be realised again. The success of the IV Chemnitz East Forum helps to further develop the role of the Chemnitz University of Technology as a turntable of East West relations.

Rainhart Lang, Chemnitz

Financial Turbulences and Capital Markets in Transition Countries - A Conference Report

A conference on „Financial turbulences and capital markets in transition countries“ convened by Jens Hölscher, Visiting Professor at the Commerzbank Chair for Money and Finance at Chemnitz University; took place from 4-5 February 1999 at Klaffenbach Water Castle near Chemnitz (Saxony). The event was taken as an opportunity to hand over a cheque of the amount of DM 10.000 by Bernd Ilbertz, Director of the Chemnitz Commerzbank AG, to Professor Borcyskowski, Rector of Chemnitz University. The amount has been dedicated to award a prize for the best diploma theses of the year at the Faculty of Economics and Business Studies in the field of transition economics and the eastern enlargement of the European Union.

“The Return of the Habsburgs“ was the title of Professor Horst Tomann’s (FU Berlin) keynote address to the participants of the conference. Tomann thereby set the agenda for the general topic to be discussed by speakers from the USA, Russia, Great Britain, The Netherlands, Hungary, Poland, the Czech Republic and Germany. Four countries in transition from planned economies towards market economies were under consideration: Russia, Poland, the Czech Republic and Hungary. He pointed out that the theme of the conference signals that capital markets do exist in the transition countries, where financial substitutes are traded and financial intermediation is deepening and that these capital markets are sufficiently open to become vulnerable to global turbulences. Tomann further emphasized the importance of financial institutions in establishing a system of viable property rights, although the financial sector in particular needs elements of spontaneous order in the Hayekian sense. There are good reasons for regulating financial markets to avoid the externalization of market risks by leverage trading, adverse selection, moral hazard and so on. On the other hand, the spontaneous order of liability, trust and stable expectations cannot evolve, if the government controls the financial markets for its own ends. The experience of the last 10 years has shown, how a deregulation of underdeveloped financial markets can boost economic development, if it is complemented by *Ordnungspolitik* as a response to uncertainty.

The country sessions of the symposium opened with a report about Russia, the „eye of the hurricane“, given by Professor Vladislav Semenov (Academy of Sciences, Moscow). He examined the question, who (or what) is really to be blamed not only for the recent financial crisis but for the general disorientation of the Russian reforms which paved the way for the crisis of 1997-1998. There seem to be many explanations available, beginning with the irresponsible policy of the Central Bank of Russia to the delayed devaluation of the rouble. Semenov argued that in contrast to the previous crises the currency crisis of 1997-1998 was not unavoidable, although the debt crisis in the state financial

sector was a direct consequence of the dramatic financial situation in the real sector. The tax increases introduced in 1997 turned out to be unfeasible for formerly successful enterprises. This led to a steady reduction of the state budget income and to the necessity of borrowing in the external and internal securities markets with the result of a rapid growth of the domestic state debt. Increasing dependence of the Russian economy on external forces became evident in this development, especially by attempts to attract non-resident's resources for state obligations from Russia. At the first signs of the Asian financial crisis these non-residentials withdrew their hot money for reinvestment in the safer US-markets and initiated a cumulative capital-flight-inflation cycle.

The second question addressed by Semenov's presentation was: „What to do?“ He concluded that perhaps the Russian markets needed the shock of a crisis in an attempt to get rid of its two main disproportions: the domination of foreign capital and the underdevelopment of their market infrastructure which discouraged investments in the real sector. Semenov briefly introduced a pilot project proposed by experts from the Council of Federations and economists from his Academy of Sciences which are based upon principles of the so-called „mobilization model“: 1. Mobilization of all non-fiscal sources of state budget income, 2. Centralization of currency resources of the country and de-dollarization of the banking system, 3. Strict control of price formation and operations in natural monopolies up to the re-nationalization of some of them, 4. Re-nationalization of some bankrupt enterprises, 5. Re-orientation of money and credit policies towards production, accompanied by adequate regulation of interest rates and money flows, 6. Radical suppression of organized crime and eradication of corruption of the state bureaucracy, 7. Protection of rights of private and public property, promotion of competition and anti-monopoly control in commerce, 8. Adoption of measures of protection of domestic markets, and finally 9. Promotion of active industrial, structural and technological policy.

The discussants of the Russian session, which was chaired by Professor Bernhard Eckwert from Chemnitz University, were Thomas Linne (Halle Institute for Economic Research) and Dr. Adalbert Winckler, University of Würzburg. They contented, that despite Semenov's explanations it is not yet clear, why the financial crisis was so severe this time. Their answer was: Because it was more a crisis in the international financial market than in the Russian financial market. Even though Russia was unable to sustain its stabilization policy due to the failure to limit budget deficits, and even though at the heart of the problem is the instability of the banking system, these conditions are not new phenomena in the Russian transition process and have occurred periodically since 1992. The very special problem of Russia during the international financial crisis in 1998 (the Asian crisis) was that it had no central

bank which could serve the commercial banks as *lender of last resort*, because the majority of the withdrawn deposits was denominated in foreign currencies. Therefore the problem of the international financial crisis was one concerning Russian commercial banks, regardless of monitoring the quality of their credit portfolios. According to Winkler the only way to overcome the consequences of such international financial crises would be to establish an international lender of last resort.

The second session of the conference was about Poland and started with an analysis by Professor Zbigniew Polanski (National Bank of Poland / Warsaw School of Economics) and was chaired by Professor Klaus Dieter John from Chemnitz University. Polanski emphasized that Poland is one of the few transition countries, which has not visibly suffered from the worldwide financial turbulences of the second half of the 1990s. Thus, the question emerges: Why has Poland in contrary to its close neighbours been immune from these phenomena? Is Poland immune to contagion? Polanski offered some explanations to this question: The Polish economic policy of the 1990s, which emphasized a need for solid fundamentals is the main reason behind the fact that Poland proved to be immune to 'financial contagion'. Macroeconomic stability was combined with a step-by-step approach of ongoing bank privatization and consolidation. Even the growing current account deficit seems to be sustainable due to the sound way of financing it.

Discussants of the Polish session were Professor Lucjan Orlowski (Sacred Heart University, Fairfield) and Professor Alexander Karmann from Dresden University. In general Orlowski and Karmann agreed that the Polish economy has continued its fast-paced growth at the time of the Asian-Russian crisis. A crucial role for defending Central European transition countries from the financial problems of Asia and Russia has been played by the close relationship with Germany and the programme of the EU to prepare Poland, the Czech Republic and Hungary for the EU-membership.

The third session was dedicated to the Czech Republic and started with the report of Professor František Turnovec from CERGE-EI in Prague. The session was chaired by Professor Friedrich Thießen from Chemnitz University. Turnovec concentrated on the ownership structure of the Czech economy in general and in detail on the banking system to conclude their impacts on the economic performance of the country. He compared the primary „face“ of the property structure to the real position of the subjects of property rights and recorded a significant difference between them. Empirical evidence indicates that the true share of the state in the Czech banking sector is significantly higher than it appears on the basis of primary property distribution. The general conclusion is that formally privatizing $x\%$ of former state property might still keep the state responsible for considerably more than $(100-x\%)$, taking into account indirect property distribution. Existing evidence indicates that the rapid

Czech privatization was a rather complicated way of switching from inefficient, but more transparent public property to still not very efficient and at the same time less transparent public property. Privatization illusion and resignation of the state to guarantee private property rights as well as the absence of a reasonable doctrine of temporary state capitalism contributed to the present problems of the Czech economy and the Czech society.

Discussants of the Czech session were Dr. Claudia Buch, Institute of World Economics Kiel, and Professor Bruno Schönfelder, University Bergakademie Freiberg. Buch asks in continuation to Turnovec: What is special about the Czech Republic? For Buch it is the failure to decisively reform institutions and corporate governance systems, which was hidden behind a curtain of macroeconomic success and now makes a recovery from the crisis in 1997 painful. She argues that the ownership pattern in the Czech financial market is a key factor behind financial market developments. Her analysis focuses on the crucial role of the banking sector in providing sound domestic governance structures and in enhancing financial stability. The weak incentives of banks have eventually contributed to the poor performance of the Czech economy, while the problems of the banking sector and the recent balance of payment crisis are merely two sides of the same coin. In contrast to Turnovec, Schönfelder doubted that even such refined measurement of transparency of ownership would measure something, which is of real economic significance. Transparency of ownership structures as defined by Turnovec's measures and social welfare would presumably be unrelated. Yet, cross-ownership structures might be welfare-enhancing, especially in transition countries, because it provides protection against unfriendly take-overs. It also supports long-term relations and enables the involved parties to invest in relation-specific assets without running the risk of a hold-up. Furthermore it may enhance managerial independence which in turn may be particularly desirable if the ultimate owner happens to be the government. Last not least, Schönfelder tackled the issue of state co-owned companies and exemplified this in respect to interlocking shareholderships in Germany, Austria, France, Sweden and Italy, maintaining that there is no necessity in such ownership structures for economic failure.

The last session examined the economic situation and prospects of Hungary starting with an analysis by Professor Ádám Török, Hungarian Academy of Sciences in Budapest, and chaired by Jens Hölscher, the convener of this conference. Török reviewed Hungary's development from an underdeveloped financial market with heavily indebted state-owned banks and almost astronomical gross foreign debt to the best performing EU-candidate country of the Visegrad-group. The beginning of the reform of the financial sector was the spectacular and in Hungary widely welcomed re-establishment of an two-tier banking system. The dramatic deterioration of the quality of the portfolio of the commercial banks after this reform followed from a former strategic mistake

committed by the government: the two-tier system was created on a state-owned basis, the lack of transparent criteria for lending then combined with de facto missing corporate governance which made the outflow of credits to low-quality debtors a regular practice. The true condition and performance of the Hungarian banks became visible in 1992. As a result, most of them turned out to be unable to survive without government help. This bank consolidation process had to be completed with the privatization of all commercial banks in Hungary. But Török pointed out that the private ownership of commercial banks is no remedy against poor performance. Only the integration of most Hungarian banks into multinational networks of banking systems offers a strong guarantee of sound corporate governance. This time the decreased relative share of bad assets within the portfolio of the Hungarian banking sector marked the end of financial turbulences within the Hungarian economy.

Discussants of the Hungarian session were Dr. Johannes Stephan (Halle Institute for Economic Research) and Professor Uwe Vollmer, Leipzig University. Stephan agreed with the paper of Török in almost every point and wanted only to accentuate some of the arguments raised in his analysis. He underlines the importance of the re-establishment of a two-tier banking system as a fulfilment of the paramount condition for the functioning of a monetary constitution in a modern monetary economy. Only the divorce of the money supply from the commercial banking system can systemically introduce *derived scarcity* of money. Vollmer stressed the importance of increased competition within the banking sector.

Finally the event was closed in style by a pre-dinner speech given by Professor Stephen F. Frowen (University College London). Taking the audience through the broader context of the conference subject „Financial markets in Eastern Europe“, he pointed to the central issue of the event, that is the importance of sound financial markets and banking systems for the health of a national economy. This would be particular relevant for the process of successful transition towards market economies and for appeals to the international financial institutions, including the IMF and World Bank, to re-think their role in contributing to financial stability. Stressing the far reaching consequences of the globalisation of financial markets and the turbulences at least partly caused thereby, with their distinct impact on money and capital markets in transition countries, he expressed a warning to the latter not to rush into EMU membership and the strait jacket of the Maastricht Treaty. Instead, they would in his view be well advised to retain their sovereignty over economic decision-making for quite some time. Financial stability, closely related to political stability, is created at home and cannot be imported from abroad. He feels that ECB measures to combine strong economic discipline with the avoidance of deflation has still to show their results and the politics involved may not at this stage be the optimal ones for transition countries. He spoke on behalf of all participants when he

expressed gratitude for an event, which has brought much further the understanding of a vital part of European developments.

The symposium successfully fulfilled its objectives: it provided the ground for productive and animated debates about the role of capital markets, macroeconomic stabilization and financial regulation in the process of the economic transition of East European countries. It was a timely opportunity for an assessment of the past achievements of the endeavours on their part of Russia, Poland, the Czech Republic and Hungary to level off financial turbulences as an inheritance from the former economic system of central planning and a mono-banking system with its old-fashioned rites and observances of a „non-payment culture“ and without proper guarantees for property rights. It provided keen insights into the role of the institutional framework of the financial system for a national economy as a whole. Although very controversial discussions were seen during this conference, the speakers and discussants agreed that the political issues of a trustworthy, credible regulation of both the financial and the banking system are of utmost importance for a sound economic development especially in transition countries. The proceedings of the conference will be published shortly by Macmillan Press (London) and St. Martin's Press (New York).

Jens Hölscher and Alexander G. Aulibauer

Invitation to International Science Conference

University of Economics in Bratislava is building on its long tradition of presenting empirical –research activities of students.

Rector of University of Economics in Bratislava Prof. Ing. Juraj Stern, PhD. acclaims:

20th anniversary of international competition in empirical-research of students' studies in economy field. The competition takes place in Slovak Republic between 16 and 17 September, 1999 on the grounds of University of Economics in Bratislava.

The requirements for the participation of the students in the above mentioned international competition are:

- to send application to international competition in students studies
- to send two copies of the study from the opponents being university teacher or individual working in the field of economy
- to send abstract of the study in English language up to two pages long
- conference will be held in English

Students – the participants of international competition of students empirical-research activity will be guests to rector of University of Economics – Prof. Ing. Juraj Stern, PhD. Travel expenses will not be refunded.

Accommodation and full board is supplied for free.

The winners will be awarded and their texts will be published.

We would sincerely welcome all competing foreign students. From Slovak Republic universities go further into international competition winners of Slovakian competition from 1998. We also invite one teacher from universities from which students will compete.

Prof. Ing. Helena Strazovska, PhD.

Prof. Ing. Juraj Stern, PhD.

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