

## **NON-EFFICIENCY CALCULATIONS\***

**(Macroeconomics, environment, politics & society)**

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### 1. DECISIONS ABOUT INVESTMENT PROJECTS, TRANSFORMING THE ENVIRONMENT, SHOULD NOT BE MADE ON THE BASIS OF SHORT-RUN FINANCIAL RETURN.

Before all else I wish to indicate that in my view the arguments highlighting the contradictions in the economic justification of the Bős-Nagymaros Barrage (BNB) and question it in detail are important and not insignificant. However, I feel it is necessary to put the issue in perspective and to review the underlying calculations in a wider context, but of course not instead of these debates.

In line with these calculations, the project is profitable if financial return can be noted within a reasonable period of time or it is not profitable if the project fails to bring return for the investor by that time.

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I do say that an investment project, affecting a huge chunk of the country and a large slice of the population, triggering structural changes and transforming the environment, does not have to provide short-term payback in terms of cash. If a project helps to safeguard huge reserves of portable water, to protect existing gravel-filtration wells, to improve the natural process of purification in contaminated waters, to stabilize the riverbed, to contribute to better flood control, to guarantee the level of ground waters, to satisfy agricultural interests, to settlements as well as comfortable holidays for others, and uninterrupted navigation -- well -- in that case it would be irrational to expect from such a project that the capital invested should also bring return in a financial sense for the bank. Naturally, profitability calculations would remain sensible even in that case since there are a number of ways to achieve a number of different objectives, and an especially important consideration in comparing different alternatives is: which one will be the cheapest to implement in order to achieve the objective? Viewed from this point, the BNB project is controversial on a number of counts. As for the environmental impact, the very opposite of the factors listed above are true: it will contaminate the reserves of potable water, it will clog the gravel-filtration wells, it will impede natural purification of waters, etc. The most, the builders could reply for most of these questions was that it is not likely that it will cause contamination; a solution could be found to prevent wells from clogging, etc. So, they are not positive about it, all that was offered was the negation of negative effects, or, at best, that the current status can be restored or maintained. It is the very lack of positive structural elements that renders the debate barren, as if the profitability of energy generation would be the major issue which is hardly justifiable anyway. If no positive objectives are formulated at all, it is difficult to expect that a debate should address the alternative ways of attainment. What is left is just "one single alternative", and I do say that financial return in that case is not a decisive argument.

On the one hand, it cannot be a decisive aspect in a long-term project since the project itself may well be useful although financial return may be lacking; and the other way round: even if there would be a payback in the short run, the project might be detrimental, requiring immediate halting. For example: a tunnel may be designed to be built under the Danube in the inner city of Budapest where it would ease traffic, but the structural damage it would cause in the structure of city would render anything of the kind a defective decision. A cultural institution may be profitable with saleable products while causing structural damage in the long run. In such cases the external effects, ie, those over and above return, may exceed many times the benefit to be measured in terms of cash.

On the other hand, however, financial return is not a real argument for the actual decision maker either. It is clear that decisions are not made on basis: Profitability calculations are instruments of post-fact justification. It is important to pin-point

distortions in the calculations would not set the decision-makers worrying, since these do not represent random, inadvertent errors on their behalf.

2. THE ERRORS COMMITTED DO NOT ARISE AS A RESULT OF RANDOM MISTAKES, THEY ARE THE PRODUCTS OF THE INTERNAL LOGIC OF MACROECONOMIC MECHANISM BASED ON REDISTRIBUTION

An essential feature of centralisation/redistribution is that the survival, the operation in general and the financial performance in particular, of enterprises, institutions and sectors do not depend directly on market events but on access to reallocated resources. Consequently, enterprises or institutions are not focusing on the provision of services and satisfying market needs but on manoeuvring themselves into good position when bargaining for resources to be distributed, which is more important than anything else. We are all familiar with the different methods, ranging from simple corporate tricks to all-out fights by settlements to be given "town" or "special holiday zone" status. And as free resources to be reallocated become scarcer, the fight for them becomes fiercer. Even the distributor finds himself in a bind and he is pushed towards emergency actions, ie, providing money to areas where immediate failure is pending in the economy.

This, however, defines the strategy adopted by those bargaining for resources to be reallocated, rendering a near-bankruptcy to be their most efficient normal status of operations. Unlike in a market economy, it is not profitability that brings the greatest benefit, but pending bankruptcy. Spectacular traffic jams on the roads, for example, justify the need for a highway, a bridge, etc.; if the factory stops producing, imports may be liberalized. Sometimes pure chance may help: if fire follows fire, more should, perhaps, be spent on water cannons, and impending floods necessitate dam improvements. However, it is not always worth while to rely on pure chance. If a bridge is cleverly built (or closed down) traffic jams can be triggered artificially which would pre-determine future investment projects. Of course, a permanent threat of flooding would not allow for tension to subside; and of course, if the contamination of waters becomes a burning issue, water purification and others would be jobs demanding technical solutions which would mean their appreciation as tasks to be financed. BNB is demanding project in itself and justifies efforts made in order to be involved in it. But even if only a quarter of the current concerns prove true after its completion, the importance of the sector would increase substantially, together with the money to be earmarked for the sector.

The series of steps are, therefore, logical and do not deviate from the tactics adopted by the mining or the or the transport industry, ie. the trick is to launch a project that would define further steps for a long while thereby rigidifying and retaining the structure, in this case the structure of distributions as well as the positions acquired.

So, the BNB is not unique at all, it has a number of predecessors including Sztálinváros and the olefine project and it also has a number of contemporaries like the unstoppable 'steam engine' of the Lágymányos bridge over the Danube, and in a wider sense, the 'development by bulldozers' scheme is also to be regarded as a close relative considering its mechanism of implementation, the way opposing views and the fact of international protest are suppressed which is discussed so extensively by professionals and laymen alike in full agreement with one another.

So this distorted investment policy based on campaigns can be regarded as regular consequence of the macroeconomic mechanism based on reallocation of resources.

Evidently, a greater role of the markets may trigger of process in production that would help eliminate the underlying contradictions. However, infrastructural or environmental projects are not decided by the government comes into play there, too. Are the beneficiaries made to perform contortionist stunts there?

The answer is that problems may arise there too, since the beneficiaries of grants may be interested in retaining their 'life-line' instead of doing away with it. Agriculture, social policy, town development and the lame duck industries may gobble up resources endlessly and wish to retain its status as beneficiary. But it is to emphasized that the difference between the Hungarian system and that of the market economies is that have a built-in set of checks and balances which prevents these effects from becoming dominant.

### 3. SOCIAL CONTROL OVER DECISIONS SHOULD BE THERE TO ENSURE THAT MERIT WOULD BE RECOGNISED INSTEAD OF BANKRUPTCY AND MERE NEED

Price competition on the market and the constant entry of new producers, together with other effects, keep the development of monopolies in check, ie. these act as regulators, playing a controlling role, although imperfectly. However, no such automatic control exists in a subsidy-oriented, reallocation-based sector: a social method should be found to ensure that there is no decision-making monopoly.

In point of fact this is the real problem here: we have no social control whatsoever. It is an of-stated fact these days that the Hungarian political system has institutional channels for bottom-up, democratic control, and all political decisions, made by those in power, float around in a void.

In practice, all decisions are wrapped in a numbo-jumbo of decision-making expertise. This also implies mystifying political competence as well; similarly, a myth prevails about 'specialists' competent to make decisions in purely technical issues, or in technical issues intertwined with political ones: they are believed to be

in possession of the essential Information because of their Position (an any information they do not have is non-essential!) as well as in possession of the Methods. It is common in social debates that the 'specialists' refer to the laymen's ignorance and non-initiation, whereas it is not the man in the street who should learn the professional jargon, the specialist should be able to present alternatives for decision making to politicians, to MPs, to the community in plain language. The layman should be entitle to call specialists to book if they fail to give a comprehensible answer to his question; but what he gets instead is a rebuke for asking "non-professional" questions.

Of course, if the general picture and the decision-making alternatives are formulated in plain language, a bigger segment of society would be in a position to exercise control over decisions, which would also mean an opportunity for them to protect (or at least verbalise) their interests. Doing away with the decision-making monopoly would mean the end of monopolising the protection of interests as well, therefore this is by far not the simple technical step, or linguistic or conceptual issue it would appear to be at first sight. (Of course, similar examples could be cited from health care, the postal service or transport, which would be just as good as the one taken from water management.) The myth around technical competence would remain a natural weapon in the hands of any sectoral interest group so long as society cannot force out the comprehensible evaluation and transparent comparison of real decision-making alternatives through their elected representatives and the political decision-making bodies. Only this can mean social control -- information for the general public is no substitute, expecially if it comes only afterwards.

#### 4. REDISTRIBUTION + THE ABSENCE OF SOCIAL CONTROL = A SELF-DEFEATING SYSTEM WITH POSITIVE FEEDBACK

I have described two systemic features above, including redistribution and the absence of social control, from the point of view of interests and their subsequent manifestations. Below, I wish to deal with them and their parallel functioning to appraise their global impact from the aspect of regulation.

Of the impact redistribution may have, reference is often made to the damage done by the centralisation of resources. (meddling with processes, slowing down prospering businesses, pushing standards downwards, squandering in the center, etc.) Now, I am not looking into this phase, only the redistribution of the already centralized resources is going to be subject to my scrutiny. So, the two variables will include the sums already centralized but prior to redistribution and the resources already reallocated. At first glance this seems to be an identity in that the two sums are identical. For the purposes of reallocation this is also identical with the declared maximum as well (ie.: what has been produced is only available for redistribution).

In actual fact, however, access to the resources (ie. the fight for such resources, the "turbulence") cost more and more and as we have just seen, justifies the logic for otherwise non-affordable alibi investments which then group themselves into a distorted structure. Having deducted their value, the sum of redistributed resources to be utilised expediently is smaller than the sum total before redistribution. The greater the sacrifices to be made in the fight for such resources, the more such redistribution is to be regarded as a negative strategic game, whereas the process of redistribution is to be regarded as a series of such games.

In summary, the arguments and efforts put forward and expended in support of the construction of the Bős-Nagymaros Barrage are in line with the foreseeable strategy of a sector, trying to gain importance in a centralized redistributive mechanism, lacking any social control by mystifying purely technological issues (ie. by transforming a development scenario without any alternatives into an issue of prestige), by sustaining conditions of pending bankruptcy in order to collar as much of the central resources as possible, by forcing decision-making bodies into dead alleys through further commitments towards the investment project.

The real depth of the crisis cannot, however be characterized by stating the fact that we have a not very well founded and unprofitable investment but by admitting that we have a lot of not very well founded and unprofitable investments and the country cannot cease to have them because of her politico-economic regime since they all a logical consequence of this regime.

The sectoral policies wavering on the brink of bankruptcy cannot add up to anything else but a country wavering on the brink of bankruptcy. It is at the national level that the total loss incurred through sectoral policies is aggregated. Everybody is incurring losses, in need of subsidies, and not only for tactical reasons, but for objective ones. This reinforces the belief that the given type of redistribution is really needed. The investment projects gobbling up all the resources trigger a chain reaction in the absence of real control and checks that could halt the process. Like a debtor, forced to pull a bluff, who can survive only if he tries to convince new creditors to lend him money, so expanding the range of his creditors.

It would be worthwhile to consider that there is no escaping forward from this bind. By playing cleverly, one may win for a while and to the debit of others, even though the total stake for the game is negative, but even such gains would become more and uncertain because of the diminishing resources and in the very end only the losses will be there to be shared.

Well proven routines can no longer help, radical changes are required, All earlier decisions need to be reconsidered since they have been made on the basic of distorted values. And at a time like that it is not only the projected value of the loss or gain that matters; it the variance in the projection, the risk of the decision or the

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uncertainty is significant., meaning that further substantial commitment may arise from the decision, that may be the very reason for discontinuing the investment project.

The chances for backing out of the game, ie. the elbow room for restructuring , are constrained by investment commitments especially if they continue to support the traditional structure. The new political mechanism incorporating social control would need room to arrive at decisions.

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