

9 The Role of Public Enterprises in Regional Competition

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9.1 Problem

(1) The majority of public firms take part in competition. Cox (1988), Eichhorn (1997), Friedrich (1976), Oettle (1976), Rittig (1977) and Thiemeyer (1970) have been considering this phenomenon for some time. The role of public enterprises in regional competition within the European Union has seldom been discussed until now. Therefore, we want to analyse whether or not public enterprises should be used as policy instruments in regional competition? To help answer this question we formulate the following *subproblems*:

1. Which are the characteristics of regional competition?
2. How are public firms involved in this competition?
3. Are we able to model public firms in regional competition?
4. Do public enterprises form suitable instruments of European regional competition?

(2) We are going to discuss the first subproblem in section 9.2. Sections 9.3 to 9.5 offer answers to the second subquestion, and section 9.6 is devoted to a simple model analysing interregional competition of public firms. Implications for the role of public enterprises in regional competition are mentioned in the concluding section 9.7.

9.2 Characteristics of Regional Competition

(1) A *competitive region* consists of a group of neighbouring economic units whose relations with each other are less conflicting than their relations with economic units of other regions (Buhr, Friedrich 1978). The economic units may form private households, private firms, public firms and public offices. They may act as a single competitor in favour of the region. Then microeconomic *competition* prevails (cf. figure 9.1). If they are considered as a group, or if one economic unit, e.g. a public office, acts as representative of other economic units of a region, we are confronted with *macroeconomic competition*. Economic units act either in isolation or in co-operation in the course of regional competition. The aims of the economic units may be either regionally or nationally oriented. Apart from *horizontal competition*

among regions and the related economic units, there also exists *vertical competition*. This is found most particularly between governments at various levels in the European Union and in member states which form Federations. The regional competition can be described by identification of regional competitors, their instruments of competition, the competition relations and the rules of competition, along with the goals of competitors.

(2) *Public firms* take part in this regional competition. They are administrations in a broader sense, spinning off the governmental administration and budget planning process and they charge at least in part for their services they provide. Sometimes their proprietor allocates to them the task of acting as competitor in favour of the region for which the regional government is responsible, e.g. business promotion companies (*public competitive enterprises of type (a)*).

Moreover they often belong to those enterprises which compete with the economic units of other regions, e.g. theatres, exhibition companies, public industrial enterprises (*public competitive enterprises of type (b)*). Certain public enterprises strengthen or preserve the basis of firms which compete in favour of a region, e.g. industrial parks, air ports, public utilities, public banks. They provide important intermediary services for production, offering nets for delivery, production and procurement of production factors and goods, thus making supplementary services available. These public firms allow the usage of external effects to strengthen competition.

Further more public enterprises exist, thus supporting the competitive position of a region by financial contributions to the their public owners (*public competitive enterprises of type (c)*).

(3) Public firms belong to regional competitors. In Germany they operate as public enterprises of the Federation, a state, a county, (district, regional authority) and a municipality. At the European level the European central bank serves as competitor. These public enterprises are involved in *horizontal competition* with respect to their procurement and sales market. If purchase and delivery takes place in co-ordination with administrations of their own or other regions, public firms compete *vertically* too.

(4) The *instruments of competition* of these competitors are as manifold as they are themselves and the horizontal and vertical conditions of competitions to which they relate. Many instruments of delivery, financial, and procurement as well as production policy, belong to instruments of horizontal competition. In vertical competition instruments of planning, codetermination, coadministration and control specified in public law are applied by competitors. Often public firms act as agents for principals, which are responsible for a region. Depending on which economic units are involved in horizontal or vertical regional competition and on which kind of objects of competition, (e.g. industrial settlement, settlement of inhabitants, sales of real estates, sale and purchase goods and services, acquisition of financial means), different *market forms* result (Friedrich 1976, 1992).

Public firms are involved in sector specific horizontal competition in sales and procurement. Oligopolies, oligopsonies, bilateral oligopsonies supply restricted oligopsonies and demand restricted oligopolies prevail as a rule. Supply monopolies seldom occur in Europe. The course of regional competition is a process developed through several *phases* and related to *levels of making decision*. In firm