The Capital Security Net and its Main Features

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1 Introduction

I know that the title of this paper is weird and unfamiliar. There is no such expression in the Hungarian language (nor in English) as capital security net. If I had written social security net, the reader of these lines would be in no doubt as to what the following pages will be concerned with.

Well, that is the point of this article: that business support and competitiveness programmes should follow distribution principles different from what we are familiar with in the much-discussed social support system. Many are not even aware that their way of thinking is limited by the well-known pattern, while others worry that by diverging from the elaborated principles of the social security net they would put certain values at risk.

2 Basic Values and Principles of the Social Security Net

In modern societies, it is increasingly accepted that life is of value in its own right, and anyone born has the right to live. Of course, different societies apply different standards regarding the minimum level to which a community will provide for its members when applying this principle. Not surprisingly, these basic rights are collected in the Constitution in Hungary. However, the written law may only reflect a trend: the extent to which individuals are actually able to take advantage of their basic rights depends on their cultural background, economic situation and other factors.

The debates in this field, often reasonably, focus on measures rather than values. It is beyond question that in 21st century Hungary no one should be allowed to starve to death, and that everyone is entitled to free basic education and other social benefits according to his or her individual circumstances.
The two models certainly represent two different ways of thinking. Indeed, significant divisions can be observed in this matter between the two parties making up the present governing coalition in Hungary. It makes a difference which opinion we share. The opinion of left-wing social democrats – represented in Hungary primarily by the MSZP – is that the government has a duty to provide the socially agreed minimum to everyone, and to ensure a fair distribution of goods. The liberal model, on the other hand, accepts the principle of helping the disadvantaged, but emphasises the individual’s accountability in the acquisition of goods, and holds that the community is responsible only for those disadvantaged who became marginalised for reasons over which they had no influence; all other members of the society should accept that ‘there is a competition going on’ and ‘one forges one’s own destiny’.

Notwithstanding the undeniably important differences, joint governance functions owing to the fact that there is one value or principle linking the two views: that society should support the disadvantaged.

3 Supporting Competitiveness – the Capital Security Net

In the period between 2007 and 2013, over HUF 7,000 billion will be transferred to Hungary through the redistribution mechanism of the European Union, most of which can and must be used to develop the economy, improve competitiveness and strengthen businesses, rather than to provide social support. There is strong social pressure on the government to use this money in line with the familiar pattern, i.e. the disadvantaged should be given as much as possible as this is the ‘fair way’. The problem is that following this logic in distribution would not improve competitiveness, but on the contrary, it would have an adverse effect on it. Business support should be given to applicants offering the best conditions, not to someone who is not likely to capitalise on it. This system rewards good performance, instead of supporting the weak. In the business world it is not an accepted principle that all who were born have the right to live. In business, those who are unfit must fall.

A support system that aims to shore up failing businesses and unavoidable bankruptcies drags down competitiveness in several ways.

Let us take two producers. One of them runs an efficient business, realising 20 units of profit from 100 units of sales revenue (while, of course, paying the required taxes, fees etc.). The other company works less efficiently, producing only five units of profit from 100 units of revenue. The latter finds it difficult to avoid bankruptcy and so applies for and receives support. The subsidy granted allows the company to lower the price of its product to 95 units, which
temporarily solves its liquidity problems, and even gives the impression of improving the firm’s financial situation, as many customers will prefer to buy its cheaper product than that of its rival. As a result, the stronger business will face serious difficulties, and may even go bankrupt itself. As soon as the subsidy has been spent, the less viable company will fall out of the market having, thanks to the financial intervention, also knocked out its stronger competitor. Competitiveness in business, as in sport, can only be enhanced through providing reasonable support to good performers, rather than by improving someone’s relative competitiveness by pulling back others.

4 The Supplemental Model

By accepting that the basic principles of the two systems contradict each other, we also accept that they require different methods, procedures and techniques. Given that the social model is to support the disadvantaged and the capital model is to reward excellent performance, individuals turning to either of them will have different things to prove and will need to apply different techniques to obtain support. To continue the sports analogy: if we say that it is the excellent competitor who should be supported to achieve peak performance, it also must be born in mind that not every kind of training leads to a better performance. In fact, some methods are distinctly counterproductive. Performance boosters are prohibited in sports and, similarly, any support that makes a company idle instead of stimulating it to make maximum efforts is counterproductive.

Of course, the opposite method is no less harmful. When the amount of the support fails to reach a ‘critical mass’, that is, it is not enough for the company to buy the most up-to-date equipment, thus preventing it from boosting its performance, or if it is not allowed (or is not willing, as the temptation is huge...) to spend the subsidy on what would be the most profitable investment in the long run but, driven by internal pressure, uses the support to supplement wages in the name of ‘fairness’, then business support may do more harm than good.

Social support is normative, irrespective of how it is distributed. The idea of requiring individuals to compete for such a support is socially indefensible as the whole system is based on the assumption that those concerned are uncompetitive. They fell behind, fell out of the social competition. Business support should be won in a competition, as this is the best way to find out who is better. Naturally, the conditions of competition should be clear, transparent, normative and steady and the compliance with competition rules should be rigorously controlled, and any misdemeanour penalized.

A well-functioning social security net functions as a leveller, and as such, it relieves social tensions. A well-functioning capital security net increases disparities, and by doing so it may even increase social tensions temporarily. It
should be noted that by supporting an efficient company to make it even more competitive, we indirectly shorten the time weaker businesses will spend on the market. Still, this is the model that may yield the expected results in the long run, because we have to stay on our feet in an international competition, and even though we may try to protect our business units within our domestic economy, in the heated international environment the results are not likely to produce any long-term success.

5 Education is the Key

If we admit that ‘performance boosting’ is unacceptable and harmful, and that the only way to success is a support system that has a positive effect on the market and promotes competition, we also have to admit that – to use the sport analogy again – competitive sport with outstanding results may only evolve from a wide basis of mass sport. If a wide range of people all have an opportunity to launch an enterprise, i.e. to join in the competition, even an accelerated fall of less efficient businesses from the market will not result in significant social tension. If the conditions for starting a business – including business environment, legislative background, infrastructure, financial conditions and, above all, HR conditions – are favourable, tension remains at a tolerable level. The more people are ready to compete in society, the more efficiently the capital security net will work, with its system rewarding excellence and leaving the weak to fall. Furthermore, a well-functioning net such as this would also ease the burden on the social security net.

To bring about these conditions is a time-consuming and complex task that goes far beyond the limitations of merely ‘teaching business knowledge’. To promote, improve and inculcate entrepreneurial attitudes and culture – and make it accepted as something valuable – is a huge and manifold task that can only be realised through collective efforts.

Only when children in nursery school can ‘bid’ for the extra cookie, when pupils in elementary school have to deal with basic business calculations instead of figuring out how much water comes out of the tap within a specific period of time, when history classes also teach of inflation waves (do not forget, and be proud: the 1945 hyperinflation made Hungary world leader in this respect), allowing students to get familiar with converting currencies and explaining who profits from a weak or a strong forint (and the meaning of these concepts, of course), when civics are replaced by entrepreneurial studies, when university courses include subjects like interest reconciliation, social security, taxation, sustainable development and many others that economics courses, let alone others, do not deal with today… well, only then can we claim that we have made some progress in business education.

Then the time may come when everyone understands the difference between the tasks of the social and capital security nets.