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**CONCLUSIONS OF THE STUDY
PRIVATISATION IN HUNGARY**

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It seems evident to make a list of pairs of contrast as a „summary of the summary” to sum up the positive and negative sides. It seems very tempting but such an experiment would soon reveal that we would commit a very big mistake. Therefore, we do not wish to yield to the public tradition of presentation in contrasting terms. Not only because there is more to it than just black and white, or good and bad, and there may be events in the future, as we have already seen, which may change the dimensions of success and failure. We would like to avoid giving simplifying answers with no time perspective to arising issues, reevaluating at the moment in question the process of dismantling of the state’s entrepreneurial assets, and looking, willy-nilly, for excuses of present mistakes, showing it in the light of determinism. We are convinced that sharp contrasts and boundaries giving ground to one-way efforts, moreover, they harm our chances of adaptation in making good use of the new opportunities provided by world economy.

No doubt, the problem of „can’t see the wood for the trees” runs through the ideas summarised as conclusion. The numerous mistakes and misjudged opportunities and the weakness in enforcing the interests are real and unfortunately dominant characteristics of the privatisation measures taken up till now. It is an obligation to account for them. Nevertheless, we must also see that, all things considered, the last fifteen years were not in vain. We know that the process is still in progress and the results of all measures taken and planned, the problems arising from the occurrence of the failure of economic growth may change, putting judgement in different light. Keeping the above in mind, we do not intend and regard the following to be rigid conclusions of our study.

Compared to the title of the summary study – slightly narrowing the scope – we followed up the leitmotif of the process, the events taking place in relation to the privatisation of the property belonging to the privatisation organisations. With our itemized conclusions we would like to show our achievements on the basis of our analytical retrospection and the issues to the contemplation, acceptance, discussion or – as a matter of fact – rejection of which we encourage the reader.

- 1. The change of the political regime is impossible without the change of the foundations of economy.** Consequently, the transformation of the property structure and, as its decisive process, the privatisation of the assets of the state operating in enterprises, was inevitable. The fact that the transformation of the property structure had already started before the „official” date of the change of regime, that is, the first free elections in the spring of 1990, evidences that there was no alternative. In that economic and social situation, consideration had only to be given to pace and method as well as to how the investors’ interests could be – or could have been –harmonised with social and economic interests. The significant achievement of the dismantling of the state’s entrepreneurial property was that it contributed to the transformation of the inoperative or low-efficient economy into viable economy capable of development, which performance was evidenced by the opening up of OECD-membership and later on EU-accession. The question is whether we could have made greater progress or realised more of today’s potential opportunities. The answer is: yes! This is true even though the preliminary expectations regarding the problem solving role and possibilities of privatisation were exaggerated. Thus, we must agree with those according to whom it has become obvious that the expansion of the two important elements of economic transition – competition and private property – does not necessarily strengthen each other, but may also conflict. **In the Hungarian practice, privatisation received priority compared to the improvement of the economic and market structures.**

2. There is another question, namely, that **it should have been or could have been recognised** a decade ago that **strategical industries** are not only those considered as such **in terms of the classical and „socialist large-scale industry”** (steel industry, aluminium industry, oil industry, electric power supply, etc.), the privatisation of which deserves special attentions, but **there can be such branches and areas which can potentially become as such** due to the globalisation process and the world’s technical and technological development (certain areas of food industry and especially the pharmaceutical industry/pharmaceutical supply system). These mistakes, the weaknesses in these areas in relation to the **availability of the system of the tools of price regulation, service regulation, and national market organization today present a risk to the enforceability of social interests. Here the treatment of the problems coupled with tensions in supply requires budgetary resources to such an extent that the reduction of the burdens going with it (e.g. drug prices) is an almost impossible task in the structures in question.** It is related to this question that everybody was completely wrong about the areas which could be suitable for building an **industrial „flagship” of a national character** on it (a company producing in a certain area internationally accepted products of an innovative value) and for its domestic capital-related ownership. The country spent – without any result and hope due to the related mistakes – tens of millions on keeping once prospering company complexes alive even through private ownership while other areas lacked funds.
 - 2.1. As it has already been criticised by the State Audit Office several times, **no assessment was made in 1989 about the actual proportion of the total value of the assets of companies to be privatised to the total national wealth.** Therefore, the majority of the specialists assumed that the state’s entrepreneurial property represents the determining portion of the national wealth. This led to the second assumption that after the privatisation of the competitive sector, productivity will probably increase significantly and at a quick pace, which will result in the permanent and sustainable growth of the Hungarian economy and considerable income will be derived from privatisation, serving as a basis for permanently solving budgetary financing problems. An analysis prepared much later showed that at around 1990 the companies in the competitive sector only owned and operated a mere 20% of the national wealth embodied in real assets. In other words: in view of the quantities involved, privatisation could by no means bring the results expected by the supporters of privatisation and could not cause damage to the extent as expected by specialists opposing privatisation.
 - 2.2. **In the 90s, there was no consistent demonopolization policy, there were no clear decision making criteria and the regulated rules of procedure were only formed with a considerable delay.** The fact that the modernisation of the budget has not taken place and the maintenance of the obsolete structure of the large supply systems represented and still represents regular disinvestment, and the after-effect, the delay of reforms will cost a lot, and in a paradox manner, will erect walls between the public feeling, the articulating policy, and the professional interest groups when there is the most urgent need for adaptation and renewal of the welfare system.
 - 2.3. And while at the beginning of the economic transformation the national and foreign experts had ardent discussions about what is more important and what has priority: the quick privatisation of state companies or the dismantling of the over-centralised organisational system inherited from the planned economy and the transformation

of the obsolete, uncompetitive production system, less attention was paid to how all this could be implemented. Both the economists and the political elite underestimated the costs of economic transformation (the costs of the transformation and reorganisation of state companies into corporations and of the consolidation of banks). It was proved that, on the one hand, the establishment of creditworthy production and service companies provided with working capital and meeting the technical, legal and environmental regulations in all respects and the setting up of a capital-strong, stable banking system incurs considerable costs, and, on the other hand, loses its sense after the „sorting out” of the competitive sector.

3. It represented a serious problem and disadvantage that **due to the disarranged state of the banking system** and in lack of an effective demand, the quick privatisation preceding the privatisation of the production sector and the services **could not take place**. The process was also hindered by the opinion generally widespread at around 1990 that privatisation should possibly go with an increase of the capital, and it is not a problem if only the capital is increased and no privatisation income is generated. The foreign debt burden, the need by the central budget of funds, and the professional pressure from the state property management machinery finally put an end to the enforcement of this doubtful expectation. At the time of the privatisation of strategic companies („the hard core”) – that is in 1994 and 1995 – the decision makers were not aware of the fact that the multinational companies, which could be regarded here as potential buyers, had already been involved in a worldwide wave of fusion for several years. Thus the efforts of the privatizers for finding an owner – „good” in all respects – for the key-companies of the Hungarian economy became relative since after a few years the chosen buyers merged with another, even more capital-strong enterprise.
4. The difference between the „Western” and „Eastern” types of privatisation is that **privatisation in the developed market economies was nowhere connected with the change of the political and economic regime**. Consequently, the relative size of state property to be sold was at the most 1/5 or 1/6 of that to be sold or being sold in Hungary. In the OECD-countries, proportions are similar to our data only in Portugal. The Hungarian model is different from the British, German, French privatisation practice – and that typical in the OECD-countries. In these countries with developed capital markets, stock market privatisation represented the basic form. Compared to the other post-socialist countries, however, privatisation in Hungary was characterised by numerous peculiarities, which, more or less with theoretical consistency, prevailed as a major rule, while elsewhere these elements were only exceptions. **The stages of privatisation in Hungary can be outlined on the basis of two different principles.**
 - 4.1. On the one hand, the process can be divided into stages **based on the type of the investors’ interest and the sale technology**. According to the above principle, the privatisation of the state’s entrepreneurial property can be divided into **four** relatively sharply separate **stages**. In the **first** stage, immediately following the change of the regime, the strategic investors appeared, and at the same time those as well who, making use of state benefits, too wanted to restructure the acquired companies in order to integrate their activities, keeping their market interests in view, into their network of enterprises. The **second** stage is the stage of the sale of the large service systems. This is the stage in which privatisation partly proceeds by applying capital market methods and the financial investors also appear. The **third** stage, in addition to „mass” privatisation, includes the attempt to correct earlier mistakes and errors. The **fourth** stage starts developing from the end of the nineties

and is characterised by the involvement of capital in the large social supply systems, creating the possibility for the transfer of the state property from the service systems into joint ventures and creates the new, until now unknown organisations of supply.

- 4.2. The other method is **the examination of the processes on an international scale, the creation and strengthening of the basis of market economy building on private property**. In this approach, the **process** can be divided into **two stages**. The **first** involves the creation of the basis of the private sector, which **cannot be compared to privatisation in Western Europe either in terms of character, or participants, or the work of the organisations implementing the management of privatisation**. The period ending in the middle of the nineties is characterised by “enterprising fever”. In the “heroic age”, the simultaneous privatisation of state companies commenced, lacking experience, professionalism and organisation, and, in parallel, the “wildcat signature of companies” by entrepreneurs having acquired some experience and a minimum capital in the era of the “socialist market economy”. The dismantling of the state’s entrepreneurial property into pieces was then characterised not only by sale based on the “exchange of values” (income and acquisition of property) in the traditional, western manner – though (fortunately) no “fair” property distribution was applied –, but also by the tailwind of the political will serving the creation of the national entrepreneurial layer, with its successful or less successful credit facilities and the toleration of the secondary market of compensation coupons. Together with the investors starting with greenfield projects, the activities and the developing cooperation of these players create the framework of domestic market economy built on private property and cause those socio-structural changes which essentially determine our life today. The **second** stage, commencing in the middle of the nineties and still in progress, is more comparable to the processes taking place in the Western economy and the sale of state property items in the “traditional manner”. The management of privatisation in Hungary starts resembling to the processes serving as an example both in terms of players and the type of investor groups, and the course seems to be similar: **blending in the international trends through the emergence of the connection of public and private financing and the sale of the remaining property elements. This makes the transformation of the economy complete.**
5. **It has costed huge time loss and tens of billions that from the beginning up to this day** the regular transfer of the state property then and now took and has been taking place regularly, with varying intensity, between various state, semi and quasi state bodies (ministries, local governments, banks the majority of which is owned by the state, budgetary bodies, MFB Rt., etc.). In this approach it was a mistake to break up the State Property Agency and to establish ÁV Rt. Economists and lawyers, dozens of state administration officers indicated in time that the original, politically over-dimensioned concept of compensation is unenforceable due to legal obstacles and necessarily results in the creation of superfluous mediating mechanisms. Finally it could be suspected that it would not achieve the intended political aim, not talking of the unfavourable economic effects, in the first place in agriculture and in the property structure.
6. The **system of privatisation regulations** – especially the related regulations affecting the operability and market situation of companies – was conceived and created **with delays**. The process was over - and under-regulated at the same time. The essential legal conditions of privatisation in Hungary did exist, however. It can be put that privatisation

was regulated in terms of legal technique, that is, the legislator (Parliament) always passed the (purpose oriented) acts and decisions approving the intended measures.

7. A lot of time, money and intellectual energy was wasted by the **regular „changes of teams and persons” and the reorganisations, partly due to political reasons, on the top level of – and within - the machinery implementing the privatisation of state property**. The difficulties related to privatisation lie in their wide range and not in their complexity. For a privatisation aim to be enforceable, the decision maker must be aware and understand numerous economic, legal, technical and personal relations. The changes in the person of the executives within the machinery engaged in privatisation necessitated „learning” over and over again, and this not only led to huge financial and time losses but also greatly contributed to the sometimes rapid, sometimes slow progress of privatisation. At the end, privatisation lost its credit both in the company sector, in the eyes of other administrative organs and the public.
8. The privatisation in Hungary **raises certain economic, legal philosophical, economic strategical issues** and doubts in terms of both the course and the results and the social, economic and welfare impact. Due to the „historical” character of the transformation, these were raised as a consequence of the non-satisfaction of the exaggerated hopes and expectations, generating increased sensitivity in the society. Though it is obvious for us that satisfactory answers to these far-reaching issues will only be given by the posterity in the distant future, but it is also apparent that these problems cannot be evaded. In addition to this, we can look at the social ethics and the impact affecting the vision of the future through the specs of „costs” of the trust in the new and as identification with it even if the resulting damage can hardly be quantified.
 - 8.1. **Essentially the process of privatisation meant the radical restructuring of the possession and ownership of the productive property and thus the great part of the wealth, but especially the positions taken in the production and distribution of income and the sources of income changed.** As regards the essential connections in privatisation, even the scientific analyses performed do not provide an answer to a lot of theoretical and strategic issues, and we may even risk the statement that the majority of these questions have not been even asked by the scientists. In fact, the practical questions intriguing and interesting the social opinion were not given answers on the merit since the answers regarding the essence have until now died out behind the bastion of „business secret”. The allocation of wealth, property and the sources of income have been radically transformed and this transformed structure is projected in a permanent manner on the future of the Hungarian society. These essential changes deeply affected, in addition to employees and new owners, the new holders of the state and productive property as well as the relationship between the state and the employees and considerable differences in terms of quality and quantity have been created and new subordination and superiority relationships were born.
 - 8.2. **The essence of property is in whose interest it is utilised and whom does the wealth created with its help serve.** Should we simply consider the property to be privatised in 1990, inherited from the previous system, as state property, the conclusion would be obvious: the state uses it in any way it wants, it is the state’s own property, therefore it can be privatised, sold, etc. What is more, qualifying transformation as a priority, the aims and requirements related to the latter can be made absolute. The problem of property, however, is especially more than this in terms of its legal and economic-social contents.

- 8.3. **A long and endless dispute can be carried on about when is the state a good and when a bad owner.** There can be an agreement that on the long run, the sale of property in the enterprises, where efficiency is realised through a diversified market, the profits, technical, technological development, production result, market acquisition, etc., thus providing more funds for public expenditure through greater state revenue, proves that the state can only be a bad owner in this respect and the changes bring or may bring along favourable changes in the near or distant future for the whole of the society. This can happen even if it is obvious that the change of owner will provide on the short run advantages for a relatively small circle of private owners, and deepens the social, income and property differences.

The judgement of the issues related to state and/or private ownership is more complicated if **it is about the state ownership or partial or full privatisation of the public service system (energy supply, transportation, drug supply, outpatient care, universities, broadcasting, telecommunication, etc.).** Especially then when not natural monopolies (for example energy supply) are concerned and the supply directly and dominantly serves the interests of the population and at the same time it is connected with the productive sector creating the conditions (for example vocational training). Here (and not only in Hungary) especially complicated and deep conflicts of interests are raised by those regulatory and social organisational measures which are related to the maintenance of the unchanged or improving service level of these systems.

In these areas, the state has visible difficulties and not always with a better result in replacing its earlier supply responsibility, solved in its role as an owner – **where it undertakes losses in order to harmonise the interests.** For the closing down or maintenance of these service systems is a social policy and not a business policy issue, and the **state's responsibility continues to exist regardless of privatisation** and the state will be forced directly or indirectly to **refund** the losses of the private owners (by granting subsidies, tax allowances) – as we have already experienced here and abroad in the case of the already privatised railway, air traffic and health systems – **without having the possibility to have a say, helping the harmonisation of the interests from its position as an owner, in the activities of these companies and their willingness to operate in social coordination.**

- 8.4. **Privatisation in Hungary was also accompanied by the dispute regarding the dilemma of „quick” or „prudent” privatisation.** „Quick” privatisation was determined by payment and solvency difficulties and „prudent” privatisation by the achievement of an income as great as possible and the maximalisation of the buyers' undertakings and it was also a decisive circumstance that – at least in the first years – the investing power with domestic background, a modest competitor of the foreign capital, was entirely lacking. **The introduction of foreign capital under such circumstances was quick and non-diversified, mostly related to a certain country, in fact determining the economic-political scope of action of the country. Making comparisons on an international level, the domestic practice was qualified as being rather „quick” which, however, was not satisfactory under the given conditions for the enforcement of indeed strategic aims and interests on the long run.** In this regard an essential objection can be raised that after all the government in power implements and is responsible for privatisation and the political forces behind it did little to lay the foundations of the future of the Hungarian national economy, for the acceptance and launch of an economic

development strategy relying extensively on the local conditions, and utilising them to the maximum and optimally. The measures taken in this respect got stuck at the legal-political and institutional preparation of EU-accession, thought it would have been necessary that a national economy competitive in certain “profiles” prepared better for 2004, to become part of the integrated EU-economy. In addition to the above, more should have and could have been done for laying the wide-scope strategical foundations of the development of national economy, and privatisation should have been put in the service of some major course of development: so much the more since it was and is connected with the actual political interests and a lot was and is being said about catching up with the developed countries, about the competitiveness of the Hungarian economy, and its generally positive effects.

9. The purpose of the change of regime, but at the same time its basis on the long run, is the development of an operating market economy. **It was impossible to enforce the essential rule in the course of privatisation, namely that the state making withdrawal as an owner should achieve at the same time, in harmony with its other roles in terms of content and time, a new quality and should strengthen in its regulatory, social organisation and educator quality.**

This is partly the reason for the great difference between the prices of the improving services and the salaries and the writhing struggles of the social security. **The majority of the individuals have not won much** with the change of owner **as regards the improvement of his own situation.** For them better telephone services, the car market, etc. are not a standard but are rather natural phenomena related to modernisation. The market of the 21st century is naturally not the free competition market established at the dawn of capitalism, but in many respects and more and more a monopolised market on the one side and therefore more and more a regulated market on the other side. The basis of all this on the one hand is the existence of the so-called natural monopolies, and, on the other hand, the increased globalisation (economic monopoly) of the production side (supply). The situation did not slacken due to the privatisation since it simply transferred former state monopolies into the system of market economy, that is, monopoly preserving property sale took place.

10. The situation is further complicated by the **peculiar structure of the revenues of the Hungarian state.** For the tax system and taxation in Hungary is such that the majority of the revenue paid to the budget in the form of taxes imposed on the competitive sector originates from larger service providers acting as a natural monopoly and thus the profit can be “caught”, controlled and taxed at this point by the state. Consequently, it is interested in increasing the income and profit of these companies (at the quickest possible rate) because the tax payments and the state’s tax revenue increase through this. The Hungarian state can only have disposal over a small proportion of the realised profit; its bulk is “enjoyed” by the owners. **All this, however, raised the necessity of a tax reform laying more emphasis on efficiency, competitiveness, social aspects and differences.**
11. The social (political) control of privatisation did not always operate properly; it was typically limited to the subsequent criticism of various measures, motivated by political interests. This made it possible that in contrast to the original concepts, Parliament renounced the rights of guidance and the creation of focal points. **The full responsibility of conduction** – without obliging the government in power to make a report on the processes – was granted to the **executive power.** It was acknowledged that the decisions in decisive matters are prepared and made under informal circumstances while the civil and criminal liability rests with others, with those on whom such liability is imposed by

the company act and the regulations on privatisation. The experiences show that the completion of the privatisation process **does not lessen the responsibility of Parliament and the government in relation to the operation of economy, the “withdrawal” of the state as an owner requires the strengthening of its other regulatory and organising functions.**

11.1. **Supervision was also affected by the unevenness showing in the enforcement of liability.** Under the given circumstances, e.g. the supervisory boards worked actively, did what they usually had to do, numerous initiatives were introduced on the basis of their statements and the State Audit Office – allocating a considerable part of its capacity to the control of property management and privatisation – regularly published its experiences and made nearly 500 different recommendations to the heads of privatisation and property management organisations and governments. At the same time, in spite of the willingness to cooperate of those performing the direct management of privatisation, in addition to the correction of the worst mistakes, the direct and consistent utilisation of the experiences remained unsolved.

11.2. Non-occurring, prevented damages cannot be quantified and this also applies to the effects of supervision. We only have vague knowledge how serious misuses and errors have remained undisclosed as „landmines” limiting the scope of action of any future economic policy as the after effects of privatisation.

12. It is palpable, and it even hindered control that **in the beginning the social and professional public opinion** – as a reflex inherited from the half past – „**exchanging significant glances**”, **watched those foxing around, “winking” and in an insensitive manner, or rather with a complicit acknowledgement, was tangible, and also hindered control.** This attitude was only replaced with significant delay, when the brutality of social differentiation became obvious, by a more sensitive approach now reaching the other extreme, which makes impartial assessment difficult. The supervisory boards did what they had to, the work of the body and the internal control under its supervision after the changes of government cycles comprised only those matters, which were found to be „suspicious” by the new responsible persons and the persons exercising property rights. Gradual improvement showed concerning the taking into account of the experiences of the state audit office as the organisation generally “infiltrated” public life and Parliamentary work – true, not in an organised and documented manner. Perhaps it is not an exaggeration to state that the recommendations made by the State Audit Office and the repeated audits contributed to the development of the technique of the privatisation process and from the middle of the 90s to the creation of a management-organisational structure more and more complying to Western “norms”. Though by far not all possibilities (invested work) were utilised, the experiences were nevertheless suitable for the lesson – in case of proper utilisation and assessment – to stand out from the “grey era documenting” reading material. They could thus contribute – though with some delay – to laying a better foundation for the following modernisation measures and to avoiding mistakes.

13. There is an agreement that taking the possibilities of Hungarian national economy and the economic requirements of the 21st century into account, **Hungary can successfully integrate into the EU and into the more and more globalised world economy if it creates a knowledge-based economy building on intellectual and high-level professional knowledge.** Consequently, the possibilities provided by privatisation should have served this as much as possible to which the basis, the professional, intellectual and

scientific basis and training capacity suitable in terms of both quality and quantity was in fact available. Hungary had – and partly still has – an internationally recognised educational system, the skilled workers had high-level vocational abilities and knowledge coupled with adequate love of work and industry. The representatives of the Hungarian intellectual and scientific life were and are accepted everywhere, and what is more were recognised for their professional background and innovativeness. All this proves that in Hungary emphasis should gradually be put on those activities as a way to create and increase value, which require highly qualified intellectual and professional work.

We are concluding our thoughts with the recurring evaluation of experts giving their opinion on the summary: *“Privatisation may not be other than the country itself. Despite of its grave problems it may establish further development.”*