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The Encyclopaedia of Hungarian Privatisation

Summary in English

This voluminous book of 1,700 pages is the product of more than two decades of research and data collection on Hungary's privatisation and management of state-owned assets. The author had the privilege of being close enough to the process itself sometimes, and following it from a distance at others.

Between 1993 and 1996, I was a high ranking official of the Hungarian privatisation holding company and in 1997/1998 I served as Assistant Deputy Secretary of State in the Ministry of Finance. Since 2008 I have been a Member of the Supervisory Board of the Hungarian State Holding Company.

This book is published in Hungarian for two reasons. Firstly, the book is intended to serve the interests of future generations of Hungarian economists and historians, for whom this grand process of ownership change, following the regime change in 1989, will be soon a closed chapter of the distant past. The author's intention was to go deep into the details of the Hungarian privatisation story. This depth is indispensible for a good understanding of why things happened in the way they did. This requires many pages of economic, legal, political and institutional details. In a small country, like Hungary, personalities are also important. For a foreign reader, these details would have been partly untraceable, partly useless. Secondly, the author has high hopes in the development of electronic translations. Since the present book will be available on the internet soon after the publication of the hard copy in Hungarian, it appears realistic to assume that the English-speaking world will eventually have access to the required information contained in this book through a reasonably good quality electronic translation.

The central focus of this monograph is the interaction between three key privatisation players: the almost omnipotent leader of the country (the prime minister), the state apparatus and the management of large and medium-size state-owned enterprises (SOEs) designated for privatisation. Throughout the book it has been argued that these three players have been the agents of change. The success or failure of each and every privatisation deal depended upon their behaviour and their interactions. In spite of the size of this book, it was impossible to analyse all types of divestments. Prior to 1989, the Hungarian state owned 2,250 SOEs, of which 1,857 were directly in the hands of the newly created State Privatisation Agency (SPA). This book follows the fate of this smaller circle of firms. As time has passed, many of these firms were liquidated, the very large ones were broken up into 10, 20 or sometimes into 100 smaller units (retail chains in food trade, pharmacies, petrol stations etc.) Thus, finally, the privatisation process generated thousands of transactions.

The book is divided into two volumes, four sections and 11 substantive chapters. The first Section examines how SOEs were supposed to function in a planned economy and how they functioned in reality (Ch. 1.). Chapter 2 deals with the long-lasting process of restitution and compensation, which was much less important in Hungary then elsewhere, but which nevertheless generated a lot of disillusionment. The legal ways and means of privatisation are described in Chapter 3. There are four chapters in Section 2, of which three describe the various privatisation institutions and stakeholder groups. Chapter 6, the most voluminous chapter of the whole book, is devoted to a very detailed analysis of the strategically important sectors of the Hungarian economy: the energy and financial sectors, telecommunication – all in all, 12 different industries. The four chapters of Section 3 examine various cross-cutting issues, such as the *raison d'etre* of the entire privatisation process, the origins and the consequences of foreign ownership, and the question of corruption. This third section ends with two summary chapters, in which the entire 20 years of Hungarian privatisation is assessed both in a quantitative dimension (Ch. 10) and in a qualitative sense (Ch. 11.) Section 4 is essentially an over-sized appendix which contains – *inter alia* – two very extensive bibliographies (Hungarian and English language works) and a 250-page long *Who's Who in Hungarian Privatisation* in which a short portrait of some 350 protagonists are presented.

The main conclusion of this monograph is that the Hungarian privatisation was successful, because its three main goals were achieved. *Firstly,* privatisation is the quintessence of the regime change from socialism to capitalism. As long as the state remains the owner and manager of firms, farms and service providing companies on a large scale, pluralist, representative democracy cannot be firmly and irrevocably established. This condition also includes the need for capitalists. There is no such thing as a market economy without capitalists. *Secondly,* research and many years of debate among Hungarian economists *prior* to 1989 had already proved that a small, open economy must pursue an export-oriented growth strategy, which, in turn presupposes the full integration of Hungarian companies into the globalised network of transnational corporations. As the examples of other countries – e.g. Ukraine or even Russia – showed later on, without privatisation this could not have been achieved. *Thirdly,* the Hungarian privatisation authorities and the people working in the implementing agencies were from the very beginning under strong pressure to generate privatisation revenue in hard currency. Given the fact that Hungary started the post-communist transition with a 20 bn USD debt legacy, the only way to avoid repudiation of state debt was selling the country's most valuable companies to Western investors with very deep pockets. Therefore it is no surprise that in 2008, according to the statistics collated by the EBRD, Hungary was the Number One country among the 28 transition economies, when cumulated privatisation revenue was compared with GDP.

An interesting lesson gleaned from privatisation was that after a few successful deals, the volume of greenfield investments started to surpass the annual inflow of privatisation revenues. It soon turned out that for the international business community, the transparent and fair conduct of the divestment process was an implicit guarantee for the safety of capital intended to be sunk in entirely new factories, buildings or networks.

With the benefit of hindsight, our research concluded with several surprising results. *Firstly*, in 1989 nobody in Hungary ever imagined that the penetration of the transnational corporations would be so fast and smooth. As it turned out, ordinary Hungarian workers as well as engineers, economists, lawyers etc. were all happy to join these companies as employees in the hope of higher remuneration, better working conditions and a more organised physical environment. In a similar way, Hungarian consumers displayed an unimaginable affection for the products and services of these large foreign companies – whether they were Suzuki cars, banking services or Austrian pre-packed milk sold in Tesco hypermarkets. It goes without saying, that the flip side of all this is the slow and hesitant development of the home-grown private firms and the lack of jobs for hundreds of thousands of under-qualified Hungarian men and women. The *second* surprise was that the old communist nomenclature had been, by and large, outmanoeuvred by the emerging young generation of Hungarian businessmen. Apart from very few exceptions, nobody from the old generation was capable to convert his or her political connections into economic wealth, sizeable enough to have any macroeconomic weight. The number of billionaires is lower in Hungary than in many other post-socialist countries. Hungary also managed to escape the danger of becoming an oligarchic society, as it happened, not only in many countries of the former Soviet Union, but also in Slovakia, Romania, etc. The *third* surprise is recent. At the very beginning of this decade it has become apparent that the most successful Hungarian entrepreneurs have gradually moved from manufacturing to property development and property investment In 2009, for example, four of the richest five Hungarians worked chiefly in this sector. Once again, and with hindsight, the process is understandable. The successful entrepreneurs of the first decade of privatisation have grown old. Now they prefer the quiet life of real estate owners to the hectic excitement of being in the frontline of tough international competition as an exporter. As a real estate owner, you don't have to be physically present to make decisions. It is enough to look into the books every once in a while and you can instruct your managers on the spot through a cell-phone.

At the beginning of the privatisation process, those Hungarian economists who were old enough to remember the way capitalism functioned in Hungary prior to 1945 had warned the public that the process of ownership change will not be an immaculate joyride. This was in vain. In the competitive political environment, all the political parties made repeated unrealistic promises to conduct the privatisation process not only in a fair, transparent way, but in a way that would make all segments of the Hungarian society winners of the sell-off. Driven by honest intentions and ignorance at the same time, the successive governments wanted to

- maximise the privatisation revenues to appease tax payers,
- maximise the chances of Hungarian small entrepreneurs without any starting capital to promote the middle class,
- keeping together the large and successful Hungarian firms,
- de-merging the largest firms to generate competition on the domestic markets,
- both speeding up the decision-making process and have enough time to verify all the underlying documentation, etc.

Clearly, these goals were incompatible with each other, and the politicians were not smart enough to explain to the Hungarian public at large that the entire process was full of inherent contradictions.