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Miklós Szanyi

PRIVATIZATION AND STATE PROPERTY MANAGEMENT IN POST-TRANSITION ECONOMIES

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Author:
Miklós Szanyi

research director

Institute of World Economics
Centre for Economic and Regional Studies, Hungarian Academy of Sciences
email: szanyi.miklos@krtk.mta.hu

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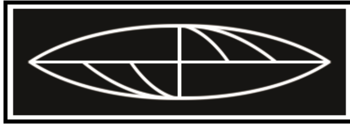

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Privatization and state property management in post-transition economies[1]

Miklós Szanyi[2]

Abstract

Privatization was a centerpiece of the Central and Eastern European (CEE) transition process, the main drivers of which were the desire to increase the role of private business, the need for economic restructuring and increasing of efficiency and ambitions to crush the economic might of the communist regime and establish the basis of a new political elite. Until the mid-2000s the main transition goals of CEE economies were largely achieved, which is also expressed in their EU-accession. However, the transition process did not create economic systems fully comparable with more established market economies of the EU. After successful stabilization and large scale de-nationalization of state property the first two drivers of privatization lost importance. Furthermore external pressure from international organizations such as the World Bank or the European Commission declined. After becoming members of the "club" only the third driver remained intact and CEE governments started to rethink their relationship towards state property using it as an "uncontrolled tap of public money". Weak civil and political control institutions enabled these processes. This development is illustrated by the examples of Hungary and Poland. This paper aims at contributing to the development of the theory of CEE capitalism models with the analysis of the changing role of state ownership and privatization.

JEL: D72, H82, P16, P31

Keywords: Central and Eastern Europe, privatization, crony capitalism, rent seeking

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[1] The study was prepared for the OTKA project No. 112069 "Varieties of Capitalism – Varieties of Direct Economic Intervention of the State". First draft, please do not quote! Comments are welcome: szanyi.miklos@krtk.mta.hu.

[2] Professor of economics, Budapest Business School; research director, Institute of World Economics, Centre for Economic and Regional Studies Hungarian Academy of Sciences

Introduction

The topic of privatization in (post)transition economies has lost attention after the millennium. The last major privatization deals were conducted by then in the Czech Republic and Romania among others representing late-comer economies in this regard. Moreover, most transition economies of CEE became members of the European Union (EU) in 2004 and 2007. This was an event that put a kind of seal on the history of transition in the countries of the region. As members of the club new rules were applied in the monitoring and evaluation of the conditions and development of these economies and the policies of their governments. New areas of interest like convergence, application of common EU regulations and macroeconomic policies overshadowed many of the key areas of the transition process. Soon afterwards a new topic and threat, the world economic depression has captured much of the attention. The serious imbalances of the financial sectors as well as new problems of fiscal policies and the Euro zone captured the minds of analysts and policy-makers. New EU members were also monitored primarily for their fiscal policies.

Somewhat unexpectedly, the topic of privatization and state property management also gained some fresh interest in the realm of the crisis. On the one hand, massive bail-out programs especially in the financial sector increased the volume of state property in many developed countries. On the other hand, some crisis-ridden economies like Greece started to think about selling state properties in order to ease their debt burden and fiscal stabilization. State property management policies underwent important changes also in some of the CEE countries. The changes were sometimes explained with the impact of the crisis. However, they were usually not meant as temporary measures. This is a shift from the previously enforced institution building process with strong emphasis on the role of market conform institutions and strengthening competition towards more direct state control of the economy. This shift was backed by neo-Keynesian thoughts and the crisis of neo-liberal policies. Yet, we believe that in the case of post-transition economies of Central Europe these processes as well as ambitions of maintaining or even increasing the scope of state property are the reflection of an important systemic

element of the region: the return of the tradition of strong state intervention, paternalism and cozy links between polity and business[3].

1. Principles of public property management and privatization

The analysis of the topic of keeping or selling state property should start with the most basic question: why should the state, a bureaucratic institution manage assets that can also be run by the private sector? Modern history of developed countries was bound to the establishment of democracies and the increasing role of markets. Political activities were institutionally separated from the business. The private wealth of those who were involved in making politics was not controlled directly or influenced by the matters of political institutions and the state in any way. However, the classic model of free market economy is proved to be inefficient in providing some services that used to be run previously by private landlords or monarchs. The first such cases were public utilities, first of all roads. Railway construction showed various patterns in different countries. Private railways dominated many of the more developed countries, while in less developed ones it was often the state who initiated and financed railway construction. In many cases state ownership was created through nationalization of the railways. In the provision of public utilities like water and drainage, electricity and gas supply or in street lighting supplies similar patterns could be observed. Public ownership in these cases developed mainly because the public interest required the steady, reliable and possibly cheap solutions for the services.

But efficient and cheap public services were also politically important issues. Efficient transport networks were crucial for increasing mobility in the era of the first industrial revolutions. The creation of adequate infrastructure for economic development was considered as primary interest of the state as such, this ambition can also be regarded as the first appearance of developmental state. State ambitions of establishing new high technology industries appeared on the scene almost simultaneously in the peripheries.

[3] The idea of sketching some of the systemic elements of a Central European model of capitalism was described in Szanyi (2012). I believe that the now topical dependent market economy (DME) model (see: Nölke – Vliegenhart, 2009) must be amended, hence FDI-dependence is just half of the story. We should also understand the reasons for weak local business development and the ambiguous role of the state and polity in general in the economy.

The example of the Austro-Hungarian Empire is a good model how the developmental state functioned in the late 19th century. The state played significant role in the establishment of the railway network, and organizing railway services and also supported high tech industries like iron and steel, railway machinery construction and maintenance. In more indirect ways mainly through public procurement ship building, aviation and the supply of military equipment were promoted as well. Later (mainly after 1920) many of these industries were nationalized. The state is proved to play an important direct economic role in shaping economic structure and increasing technological sophistication of production. Thus, a second motivation of establishing state control in the economy (mainly in industry) was the ambition of the developmental state.

Many countries can be characterized by the first two considerations of running state-owned assets in special spheres of the economy (albeit the scale and scope of state ownership may be very different by country and time period). But there is a third systemic reason of nationalization and running state property: the establishment of a planned economy. As it is well known, the Marxist analysis of the (nineteenth century version of) capitalism highlighted important inefficiencies especially potential losses, economic and social damages during crisis periods. These problems could be avoided if the spontaneous laws of the market coordination are replaced by scientifically planned bureaucratic coordination mechanisms. If scientific knowledge and planning (data processing) capacities allow it, main economic trends and activities can be predicted and economic action like production, distribution, interactions among economic agents and with consumers are commanded by central planning authorities. The command economy of the Soviet Union in the 1930s could have achieved significant results in the process of industrialization and modernization of the country. The theoretic criticism of that time (Schumpeter, Hayek and others) queried the existence of sufficiently large, sophisticated and efficient bureaucratic capacity that could have regulated such a complex system like the Soviet economy. Another strong argument criticized the rigidity of the system: structural changes and technological development were regarded as noises in the system that should be confined rather than encouraged. Central planning required the existence of an economy that carried out commands in disciplined ways.

Managers of economic units were regarded as executive officers who fulfilled commands given by authorities of the state (and also the politically commanding communist party). Hence, economic agents had to be the property of the state.

It is quite obvious that this later type of state ownership differs conceptually from the two previously mentioned ones, even if the former considerations may also play a role in the command economy too. Thus, the reasons of establishing and maintaining state property may substantially differ between established market economies and transition countries. Hence, the question of keeping or selling state property must be formulated also rather differently. Arguments of maintaining public services in more developed market economies can only be applied in transition economies with restrictions[4]. On the other hand, systemic change of transition economies was very strongly bound to selling state property: privatization became an important political question.

1.1. State property in the neoliberal policy mix

Changes in the status of public (state) property come mostly together with major changes of the philosophy of economic policy making. This concerns especially the magnitude and intensity of the various forms of direct state interventions in the economy. While the overwhelming activity of state bureaucracy in central planning was regarded rather univocally very skeptical by non-Marxist economists, a more limited albeit rather substantial involvement was regarded as useful by many. Keynesian and neo-Keynesian scholars for example did not obey the usage of state controlled companies for the stimulation of markets. The smoothing of cyclical fluctuations and prevention of strong negative effects like unemployment was affected by direct state intervention in many countries during the golden age of the 1960s and 70s. Also, in many West European countries state-owned enterprises (SOEs) played important role in the provision of some welfare services. SOEs became major contributors of the achievements of European welfare models.

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[4] The privatization boom in Britain, France and some other countries preceded the transition process in CEE. Based on the neoliberal concept state involvement was reduced. State ownership was regarded as inferior to private ownership even in cases where state ownership was the result of a market failure. The old tradition of the developmental state was also regarded as obsolete. However, these privatization deals brought mixed results. In some cases quality of activities did not improve in private ownership either (see: Török, 2014).

The early critics (like Joseph Schumpeter) of the Keynesian economic policy highlighted the fact, that demand stimulation through public spending may only be useful if it is used in an anti-cyclical manner, and if it targets investments that pay off over time. Otherwise, the Keynesian model is nothing else than a "theory of spending". In fact, the timing and the quality of public spending deserved criticism during the 1960s and 70s in many countries, but also in many of the post-transition economies during the late 2000s. The multiplier effect of public spending was not strong and continuous in many cases and resulted in increased public debt. Much of the debt was accumulated by inefficient public companies, SOEs. Long years of recession and stagflation in the US and Europe during the late 1970s and 1980s moved the pendulum of economic thought into the opposite direction. Failure of Keynesian policies including the role of SOEs led to a general rejection of direct state intervention in the economy.

Without going into the analysis of the neoliberal revolution and its impact on economic policy we may state that there were two main conclusions for state property management. First, state ownership was regarded as superficial and inefficient, because decision making in SOEs was strongly influenced by political considerations that overwrite business rationale. Second, firms operate in many cases on regulated markets. Another source of distortion for business rationale might come from superficial market regulation that weakens competition and also increases transaction costs deteriorating efficiency of business units. Thus, the neoliberal solution for the problems in the real economy was based on two main pillars: deregulation and privatization.

A number of countries in continental Europe did not follow the British policy pattern till its extremes. Governments in Italy, France and Germany intended to maintain as much of the "achievements" of the welfare state and its institutions (including also SOEs) as it was possible. Fiscal discipline was strengthened, however not by the elimination of established social institutions of welfare capitalism. Rather a kind of change, a reform in running the institutions was conducted, being based on social consensus. This cautious shift in economic policy was influenced by the very intense social upheavals experienced by Britain during the mid 1980s that governments wanted to avoid, and also by the stronger labor unions and traditions of corporatism in continental Europe. Some countries efficiently reformed, others failed.

Concerning SOEs the picture is rather impressive. Today's state ownership in business units seems to be not less efficient than pure private control. Firms with state ownership do not differ from other listed companies. Most important SOEs are joint stock companies with mixed ownership and meet the usual governance patterns of listed companies. Since corporate governance regulations in developed market economies perform sophisticated toolkits for specific problems of effective management control and minority shareholder protection, the state as an owner is usually not in a position to enforce any kind of political ambition. Hence, the old argument of overshadowed business rationale falls in the typical SOE of continental Europe. Therefore, the main argument of privatization does not seem to be valid[5] any more. State ownership does not limit the efficient work of companies if they have mixed ownership pattern and are under efficient control of corporate governance institutions (most importantly the stock exchange). Nevertheless, in the time of transition in CEE the neoliberal economic thought still had a determining role in economic thinking and political practice of governments and international institutions.

1.2. Privatization in the transition policy mix

Post-soviet and Central-European economies started the process of political and economic transition with a rather problematic heritage of the previous system. Transition meant changes on mass scale in all the political, social and economic spheres. Completely new institutional system had to be created. Political and economic routines that were previously based on cringe and state paternalism were to be changed and private initiatives were to take the initiative. The situation in the post-soviet sphere was especially tough since the required new routines were completely absent. After 80 years of communism nobody had firsthand experience with market economic and democratic policy routines. CEE also needed external support. During the 1990s many international institutions provided conceptual and financial support in shaping the transition process of CEE. The role of the World Bank, the European Bank for Reconstruction and Development (EBRD) and the various organizations of the European Union played

[5] The current crisis did not show fundamentally different patterns of state involvement in public and private businesses either. Many private banks were bailed out, and some major SOEs mainly in the automotive sector were also supported by government policies.

especially important role. The actual design of policies was built largely on the perceptions of foreign experts. As it turned out, CEE economies' actual conditions provided much surprise for foreign (sometimes also for domestic) observers and consultants (Roland, 2000).

Since conditions of the transition were established by developed Western market economies, the transition process was also commanded by their political and economic principles summarized in the Washington Consensus. As it is known, this set of economic policy measures was originally designed for the reconstruction of some seriously indebted developing countries during the 1980s. The suggested therapy included the quick and efficient introduction (strengthening) of market economic institutions, quick and deep liberalization (especially foreign economic relations), strong stabilization efforts (deep cuts in public spending), privatization and the general withdrawal of the state from direct economic activities. The mix was called SLIP, an acronym for stabilization, liberalization, institution building and privatization. The aim of these policies was to create a level play field for independent economic players, to enhance the beneficial impacts of free competition as it was described by the neoliberal mainstream of the 1970s and 1980s. Critics of the mix stressed especially the fact that the conditions of the level play field favored the strongest and most influential multinational companies. Washington Consensus was eased later, and specific conditions of transition economies were paid more attention although the main message of the policy mix has not been changed yet.

Though the expectations of international organizations and business were largely identical concerning the individual countries of CEE[6], but the actual implementation, i.e. design, sequencing and speed of various measures varied greatly among them. The main differences were caused, first of all, by the current status of their economies, most importantly the levels of foreign and fiscal deficits. In countries like Poland and Hungary debt problems urged handling with stabilization policies. This is true even if all transition economies underwent rather deep transitional crises that boosted twin deficits. Foreign observers were surprised by the fact that transition economies' enterprises could not modernize their production patterns overnight and were not able

[6] This is reflected for example in their regular comparison e.g. in EBRD's transition index.

to replace falling Eastern (post COMECON) sales quickly via contesting available Western markets (Roland, 2000). Consequently, stabilization measures played an important role in all CEE countries, but in Poland and in Hungary also other policies were influenced by the needs of cutting state debt rather quickly. In Hungary privatization policies were designed to deliver highest possible revenues. In Poland the bargaining for debt write-offs limited the chances of FDI attraction due to increased country risks.

Another strong determinant of the actual layout of transition policies were the social and political conditions of the countries. The outstanding role of the Solidarity movement in Poland's transition strongly influenced many policy steps there. As it will be elaborated in more detail later, privatization policy was always based on political and social consensus that also included the strong Solidarity union movement. In the Baltic states, the newly gained independence from Russia allowed the governments to impose strict stabilization measures, as they were considered as a condition of maintaining independence (Bohle and Greskovits 2007). As a result, steps of SLIP policies greatly varied among CEE transition economies concerning their design, timing and speed.

Differences of the transition process have resulted in longer term consequences (differences) in many areas of the CEE economies that are effective even today. On the other hand, in many aspects there is convergence among them despite of large differences in policies. This can be applied – among others – to the process of privatization. State ownership was reduced to marginal level in all CEE regardless of the timing and methods of privatization. Another important and partly related similarity is the structural convergence of CEE economies, and the similarly high level of multinational companies' presence. These similarities evolved due to imperatives of current world economic development patterns rather than the intentions of policy makers and advisers. Thus, trends of globalization may affect countries of similar development level and economic potential in the same ways in case they do not want to isolate themselves from the process of globalization.

The primary neoliberal logic of privatization is the overall decline of state intervention in the economy. Especially direct state involvement was regarded as avoidable. Privatization was treated as the prime source of strengthening private

businesses. State property was to be distributed among private stakeholders, thus creating a strong capital owner and entrepreneur strata in the CEE societies that also was expected to support the new post-communist political elite. This consideration was the most important determinant of the design of the Czechoslovak voucher privatization scheme. Privatization supported many of the newly established market economic institutions. For example, virtually all CEE countries introduced privatization methods that included the newly established stock exchanges. Initial public offerings (IPO) of SOEs were among the first corporate shares that were traded. Here again we can see high expectations that became only partially effectual. It seems that only the Warsaw stock exchange took momentum after the years of transition and became sizeable enough (Ozsvald, 2014). All other stock exchanges stopped growing, no important new IPOs were launched, and moreover, the once introduced securities of former SOEs were largely withdrawn. By mentioning these examples, my only intention is to highlight the rather ambivalent relationship between privatization and the other elements of SLIP.

2. The practice of privatization in CEE

Privatization was one of the main elements of the neoliberal policy prescription provided by the main economic advisers of CEE countries. In this logic direct state ownership was inferior to private in terms of business efficiency and was reduced. In the introductory part of this paper we already called attention to the fact that public property when used under the control of capital markets does not necessarily perform worse than private. Therefore not public property in general, but the uncontrolled functioning of it can be regarded as potentially inefficient. Given the fact that transition economies have not possess effective capital markets (with the exception of Poland), SOEs still risk substandard performance and also potential influence of polity on their activities. Hence, the main argument for privatization expressed by foreign advisers still holds in CEE.

Not only foreign advisers stressed the importance of privatization in CEE. There were numerous practical reasons for giving away SOEs. Pre-transition SOE's activity was organized according to the logic of the command economy with no respect for market

economic principles that were to be abolished completely. This statement can be applied both for the functional logic of the firms and their practical activities (investments, product and technology development, labor relations, etc.). Consequently, the typical SOE possessed outdated products (selling only at large discounts on Western markets if at all), old fashioned technologies, limited engineering capacities specialized on redesigning already existing technical solutions. They did not possess managerial knowledge applicable in strong competition (liberalization was fulfilled almost overnight), no marketing skills (it was not required before), no capital for investments in new technologies, products and markets (firms had no right to withhold and accumulate reserves from their sales revenue).

Not all of these problems were foreseen or correctly perceived at the beginning of the transition process. Transformational recession occurred because of huge drops in sales revenue of SOEs at the beginning of the 1990s (Kornai, 1994). Privatization was seen as a major tool of making firms more efficient and competitive. The simple dogma about the superiority of private ownership over public ownership was readily accepted by many observers and advisers. Yet, if we understand the complex task of restructuring, it becomes obvious that this would not succeed overnight either. A questionnaire survey of the time proved that the time span of successful restructuring depended on the endowments and possibilities of the owners (Szanyi, 1996). Larger firms with better sales potentials and especially foreign investors who possessed the necessary capital, technology and know-how as well as market access could redesign former SOEs quicker than domestic owners. But also SOEs that remained in public ownership started restructuring. On the one hand, it turned out that privatization could serve the quicker and deeper restructuring, especially if the new owners were foreign investors. On the other hand, a large number of SOEs could not be reorganized effectively because they lost markets or were run at extremely high costs and became uncompetitive. The introduction of bankruptcy regulation in CEE economies effectively removed many of the ailing SOEs (Balcerowicz et al. 1998). The second ultimate rationale for privatization was the need for restructuring, the introduction of new products, technologies, markets, managerial know-how and large scale investments. This is the business rationale for privatization.

A third rationale for privatization was formulated by the leading political forces of the transition process. The new political elite urged de-nationalization in order to break the economic background of the exponents of the previous regime. The complete crush of the hated communist party might was only possible if the economic basis of SOEs was transferred to new owners (Frydman – Rapaczynski, 1994). This argument was based on the fact that SOE managers had close ties with communist party leaders as executive officers of the command economy. This ambition of eliminating the economic power of communist party members was not successful in any of the CEE economies. The second line communist party members and corporate managers became new owners of former state assets in one or another way. The successor parties of the former communist parties also maintained some political influence.

The balance in the interplay of the three main drivers of privatization changed over time in all CEE transition economies. The role of international advisers remained important throughout the period until accessing EU membership, but especially during the 1990s. During the first decade of transition Hungary took the lead in privatization (we do not regard voucher schemes applied in Czechoslovakia an effective privatization method). There was a kind of competition among CEE countries in achieving quicker and deeper reforms. In order to score better on EBRD privatization scoreboard governments reported increases in the share of private business instead of the volume of de-nationalized property (Poland), or the results of quasi- or surface privatization programs that resulted in changes "from public to public ownership" (Mertlik, 1995). Nevertheless, there was a strong pressure on governments to reduce the size of public ownership.

Pressure of the business rationale was also rather strong especially in the period of the transitional crisis. The Hungarian government lacked the necessary fiscal tools to ease this pressure, thus, loss-making SOEs were to be removed from the property portfolio of the state either through the sale or through liquidation[7] (). However, the pressure of competition could be lifted temporarily, and its consequences postponed, as it was the case in the Czech Republic and Slovakia. The strong devaluation of the

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[7] Liquidation can also be regarded as a form of privatization since this process also concludes with the sale of assets in the case of SOEs (Szanyi, 1995).

national currency in these countries provided cost competitiveness for SOEs for 5-6 years until this cost advantage was inflated away. Unfortunately, most SOEs did not take the opportunity of restructuring during the grace period and were confronted with similar competitiveness problems in the late 1990s than earlier. Also, SOEs that participated in the Czechoslovakian voucher privatization program were exempt of the effect of the bankruptcy regulation. Thus, the second main driver for restructuring was also made ineffective.

In fact, the interplay among liberalization (increased competition), effective bankruptcy regulation and privatization with the sales method could be also used to cure the old behavioral problem of CEE economies: the state paternalism. The relationship between state (as owner) and governments was characterized by regular interactions taking place in the bargaining process of conflicting interests of company executives and central planners (party officials). The bargaining process over available resources and the expected output volumes created a fertile soil for rent seeking. Company managers tried to hoard resources over their actual needs and keep performance below their potentials. The process itself was characterized by cozy relationships between company management, state officials and party leaders. This kind of state paternalism repeatedly resulted in major bailing out programs of inefficient SOEs. This type of paternalistic behavior by the state and its expectation by SOE managers should also be eliminated in order to enhance SOEs' restructuring ambitions.

The breaking of the paternalistic ties was also important from the aspect of the third driver of privatization, the political one. Since company managers could not be easily replaced (there was no excessive supply of economists and managers in the short run), an effective control could be put on them by privatization. Certainly, some forms of privatization resulted in insider deals (on mass scale in the post-soviet era, but to some extent also in CEE). Insider privatization cannot be regarded as an effective from the business viewpoint because SOE managers' capabilities did not increase. The emergence of many oligarchs was financed by state loans obtained with the help of federal or local politicians quite similarly as it was usual in the previous regime. The old type of paternalism survived, crony capitalism spread quickly in the Yeltsin era. Altered forms of state paternalism survived also in CEE economies. Privatization was also used as a

tool of transferring economic power to the new political elite. However, this did not mean the end of state paternalism or the elimination of the channels of crony capitalism, but rather the establishment of new forms and channels. The new political elite also strengthened its economic power and entered the arena of crony capitalism.

The political condition of privatization was therefore largely fulfilled. Not in the sense that former communist leaders were ruled out from business. Rather in the sense that economic power of old and new elite became more balanced. Therefore, the threat of reversing the political transition was lifted. Old and new elites equally became integrated in the new market economic system. Instead of reversing political transition it is rather the emergence of a new type of paternalistic relationship between business and government, a new form of crony capitalism that may bring new threats to efficient economic development of CEE.

Tendencies of privatization in the CEE region are quite known. Hungary effectively finished the process by the end of the 1990s using mainly the sales method and preferring FDI in the process. The Czech Republic and Slovakia maintained higher share of state property during the 1990s, nevertheless, continuous problems of SOE management and slow restructuring forced the governments to sell by the turn of the millennium. The Polish privatization process was more sluggish, mainly because of the need for widespread social negotiations with stakeholders, and the effective blocking the privatization of many large SOEs by their workers and the Solidarity movement. Hence, the volume of state property remained relatively high in Poland, and government agencies together with SOE managers were forced to pursue effective adjustment policies. In some other cases, however, various other government policies provided the necessary sales revenues for financing continuous operation[8]. Polish governments repeatedly launched privatization programs to sell the remaining assets until quite recently. The latest 2012-3 plan however has not been started.

The privatization process was declared finished in 2009 by the Hungarian government. However, this was rather a political statement. Since then some further assets were sold, albeit not at the magnitude of the earlier privatization campaigns. The

[8] This was the case in mining, electric power generation and metallurgy through price controls and subsidies.

new element that will be discussed in more details is the reverse process that has been started after 2010. The strategy of the government has been changed. Instead of reducing the asset portfolio, the Hungarian government started to buy new assets. Actions of this policy will be described in this section. After comparisons with the Polish privatization and state asset management practice, I will provide a political economy explanation of the policy change in the final section.

2.1. The political economy of the Hungarian privatization experience

The first years of the privatization process were determined by the process of "spontaneous privatization". According to the 1988 Law on Transformation SOEs had to transform their legal form to an incorporated company. This meant among others that 2200 SOEs' ownership structure had to be defined. As part of the economic reform process, the last communist government intended to improve incentive systems by commercializing SOEs and provide an effective ownership pattern for them. Simultaneously, private business ventures were also given a larger room to maneuver, their size limit (in terms of employment) was lifted. Soon state assets were siphoned from SOEs to various private businesses, mostly owned by corporate managers. In fact, through this act SOEs were taken from the direct control of the Communist Party and the state bureaucracy (this was intended), but no effective new ownership pattern was introduced (enterprise councils for example could be easily manipulated by corporate managers). This practice of asset stripping was stopped only after the new (non-communist) government set up the State Property Agency (SPA) in 1991 that was also charged with privatization tasks. Asset stripping was stopped effectively by the establishment of the agency, since SOEs were obliged to inform SPA and get permission for all transactions above a certain value limit. In fact, this regulation also hampered SOEs economic activity, since the agency had only very limited personnel capacity.

Soon after this, intentional privatization was also started. As mentioned before, SPA preferred the sales method for the highest bidder, but simultaneously also provided avenues for alternative methods[9]. For example, partial restitution was organized in form

[9] Since there was no matching international experience with the various privatization methods, basically all CEE transition countries applied various kinds of methods with different emphasis.

of restitution coupons, a kind of security that could be used in the purchase of state assets. Some large manufacturing firms and banks were introduced on the Budapest Stock Exchange, and their shares were sold at discounted rates for interested Hungarian citizens. Nevertheless, these transactions had only marginal effect on the Hungarian privatization practice. Instead, already in the early 1990s SPA sold a number of lucrative large firms to foreign investors (Tungsram, the internationally known lighting industry firm to General Electric Co.; Chinoin, one of the most successful pharmaceutical companies to Sanofi S.A.). These deals were to herald the main emphasis of the Hungarian privatization policy[10].

Around the years 1992 and 1993 SPA realized that it had no sufficient capacity to directly control SOEs' day-to-day activities and simultaneously prepare the conditions for the privatization deals. The problem was exacerbated by the 1992 introduction of a new bankruptcy regulation that effected serious measures in case of insolvency. Since most SOEs could not perform sufficient restructuring efforts, many of them went bankrupt[11]. The interaction of privatization and bankruptcy had also an important effect on institution building in Hungary. It produced an environment where the old opportunistic behavior of firms (and firm management) with the state was broken. SOEs could no longer rely on various measures of accommodation by the state. Government declared no interest in maintaining state ownership, privatization was taken serious and virtually no exemption was provided from the effect of the harsh bankruptcy regulation. This set of measures together with more stringent prudential regulations of the commercial banks the main creditors of the loss-making SOEs effectively forced SOEs to intensive restructuring. It also provided sufficient credibility to the Hungarian government that resulted in less opportunism and more efficiency of the economic policy in general (For more details see: Szanyi, 2002).

But even if the privatization and asset management agency's personnel only monitored but did not design corporate restructuring, it still had no sufficient capacity

[10] Parallel with this all kinds of foreign investment was promoted through a number of FDI incentives, like tax holidays.

[11] Only in the year 1992 over 2000 bankruptcy or liquidation procedures were started, half of it against SOEs. When compared this number with the initial stock of 2200 SOEs one should bear in mind that a large number of firms was split into pieces in order to enhance privatization with the sales method. This meant, of course, that only viable branches remained active and fit for privatization, redundant, ineffective branches were separated and bankrupted.

to design the privatization process for all SOEs in the portfolio. Hence, during the mid-1990s corporate managers were also actively involved in the privatization process of their own companies. Managers were expected to prepare privatization plans using permitted methods (sales, MEBO, stock exchange), SPA only controlled the process. The effect of the "small privatization method" was expanded to several hundred small and medium sized firms. At the same time, SPA made important efforts at selling the remaining larger manufacturing firms, furthermore banks and later also large service providers (electricity companies, for example). By the late 1990s the decade-long privatization effort (together with the effective bankruptcy regulation) was almost finished. In most segments of the economy (industry, trade, financial sector, most of the services) virtually no state ownership remained in place.

The bulk of the privatization was carried out in the 1994-1998 reign of a socialist government (with strong links to incumbent managers). There was consensus among parties and within the society concerning the main directions of political and economic transition, including privatization. Opposition criticized some aspects, especially the strong involvement of foreign investors. Their statement implicitly targeted the political but also maybe the material benefits that could be obtained in the process. This meant mostly clientism, preferential treatment of participants from the business background of the ruling political parties (throughout the 1990s there were coalition governments in Hungary), but it might also mean access to corruption revenues.

As far as the existence of corruption (fraud) in privatization is concerned there is of course little evidence. Only a few big scandals signed that there was some unlawful practice present, but this was nothing to be compared with the criminal records of post-soviet states' privatization processes. Evolving democratic institutions and foreign control helped strengthening the rule of law in Hungary. Nevertheless, if we do not stick to unlawful transactions that potentially triggered judicial processes we can also regard cases of cronyism and clientism, the lack of level play conditions in the privatization process. In this broader sense of unethical practices the Hungarian privatization continuously provided negative evidence, starting with the obvious case of spontaneous privatization.

In the 1990s unethical practices used mainly loopholes in the legal regulations. Spontaneous privatization became possible and its asset stripping practice could be carried out absolutely lawfully, because the institutions of effective control was lacking. Of course, most concrete asset transfer deals were provided some business rationale, explanation for the absent state owner. Fraudulent behavior was very difficult to prove. The government of the years 1998-2002 launched a few challenges of asset stripping in the spontaneous privatization, but the processes were closed without result. The same preparations were applied also later on. The next main period of unethical asset transfer transactions were bound to the bankruptcy procedures. Here again, fraud was hardly ever proved, nevertheless, the years between 1992 and 1995 were regarded as a bonanza for bailiffs but also for SOE managers. When the automatic trigger of the bankruptcy law was in effect, so many cases were filed that nobody really had a chance to question the responsibility of management in the evolution of insolvency. For sure, in many cases insolvency was deliberately caused by management in order to reduce the market value of the companies and make them less lucrative for potential investors, thus creating better conditions for management participation in the privatization process, or for buying out valuable assets in the liquidation procedure.

Unfortunately, the privatization process was burdened by unethical cases that produced political explosives for the opposition. Yet, to my knowledge there was no privatization process that was free from such cases. Even the once appreciated Czechoslovak coupon privatization process resulted in an unhealthy concentration of assets and continuous opportunism and rent seeking that also produced a lot of dismay. The only exception in this case might be Poland, where the whole privatization process was carried out with high level social transparency and consensus (Blaszczyk – Woodward, 1999).

Populist sentiments have characterized the state property management policy of the government after 2010. The repeated anti-globalization attacks targeted mainly the largest multinational companies in various services industries. Reduction of the dependence from the globalized world economy needed for example financial institutions in national hands (if public, the better). Obtaining the desired level of state assets was made possible through various transactions. In the 2013 case of the

cooperative of local deposit collecting financial institutions the method of regulatory capture (see: Yakovlev, 2006) was applied. First the state increased the level of required deposits. Since the small banks could not meet the new obligation overnight, the state itself provided them with the necessary capital and connected this transaction to the acquisition of a controlling share of ownership. Owners of the small banks were not asked before but were provided an ultimatum for the case they would reject the generous offer. In 2014 the Hungarian state acquired MKB Bank from the German owners. The German parent bank was unwilling to run the Hungarian daughter at loss and sold to the only serious buyer: the Hungarian state. The losses were, however, caused by various negative changes in the business environment initiated by the Hungarian government (extra tax on banks' profits, tax on financial transactions), and by the process of restituting the Swiss-Franc debtors[12]. The achievement of 50 % of national property presence in the banking sector was heralded soon after. Later that year FHB Bank was purchased by the Hungarian Post increasing national ownership to over 60 % of bank assets. Éva Voszka (2013) provided a rather comprehensive description of takings by the Hungarian state between 2010 and 2013. Until than state property held in corporate shares doubled (and this amount further increased in 2014). Bulk of the increment in the property was acquired in the nationalization of the private pension funds, when securities of the funds were taken over by the asset management company of the state. But there were also purchases, like the banks listed above.

Summing up the lessons of the Hungarian privatization and state asset management practice, we can state that the privatization process dominated the 1990s with clear preference of asset sales to foreign investors. Also, Hungarian investors could obtain assets, but this process was not sufficiently transparent especially in the spontaneous phase and in the liquidation procedures. This lack of transparency and the potential occurrence of fraud provided explosive fuel for populist argumentation. After the main processes of transition were finished and the country became member of the European

[12] The essence of this very long partly judicial partly regulatory process was twofold. On the one hand, the government wanted to punish multinational banks when it required them to pay back substantial part of the charged interests for citizens whose loan contracts' interest rate was unilaterally increased by the bank. On the other hand, the government wanted to support the several hundred thousands of citizens in order to collect their votes for the 2014 election campaign. For this purpose the government already spent substantial amounts of the state budget also earlier to compensate debtors for losses due to disadvantageous exchange rate changes.

Union foreign control on state asset management and privatization was lifted. The looser foreign control and the weak performance of domestic controlling institutions (democratic political and civil alike) as well as the breakup of the parliamentary opposition increased the room of maneuvering of the Hungarian government. Based on the weak and inefficient control populist arguments were used to gain social acceptance and appreciation for a series of measures, including the increase of state controlled assets. The aim of the measures was to limit the presence of multinational companies in a series of domestic markets, and increase business opportunities of firms of the clientele or those in direct state control. Later in this paper I will insert this policy in the broader political economy framework of transition and privatization.

2.2. The Polish experience

Poland's economic, social and political conditions were different from the Hungarian situation. This country also pioneered economic reforms under the communist regime, however these did not proved to be more successful than the Hungarian efforts either. Nevertheless, a sizeable private sector existed at the very beginning of the economic transformation, and entrepreneurship had some background in the country. More important was however, the difference in political traditions. After turbulent worker demonstrations during the 1970s the 1980 foundation of the Solidarity trade union movement meant a bottom-up organization of a massive social institution that had a strong voice and could not be controlled by the communist governments. Many believe therefore that Solidarity's political activity was a main component of the overall transition process in CEE. When compared with the Hungarian case this meant a strong independent political force with widespread social base especially among workers, the voice of which could not be neglected. In Hungary, bottom-up movements lacked trade unions were crashed as they were regarded remnants of the communist era, new social organizations were initiated and controlled by political parties. While in Hungary there was no significant independent civil movement, Poland had a strong one that influenced and monitored many transition policies.

Another peculiarity of the initial conditions of the Polish transition was the way of debt management by the government. Poland had similarly high foreign debt, but unlike

Hungary, who maintained debt repayment, Poland rendered moratorium on debt payments, and negotiated with the Paris and London clubs of creditors about partial debt write-off and the rescheduling of the remaining parts. The different path of debt management in Poland resulted in the temporary loss of interest in investing in the country.

Privatization policy was also influenced by these peculiarities of the Polish transition process. On the one hand, privatization policy was built on extensive negotiations with the stakeholders, including workers and partners of to be privatized companies. In most cases the outcome of the negotiations decided the actual method used in the actual privatization transaction. The negotiation process was of course strongly influenced by the government agency (Privatization agency, later the Ministry of Treasury), nevertheless, consensus was developed, and without the consent of the stakeholders no transaction was carried out. In many cases stakeholders, especially worker councils effectively blocked privatization transactions. During the 1990s Polish governments could not touch a number of large manufacturing and mining factories, where Solidarity movement had especially strong traditions. Therefore generally speaking Polish privatization was a slow process, but the actual privatization deals were probably better prepared, privatized firms had better chances for restructuring and maintaining the level of production and employment, than in Hungary[13]. Nevertheless, there remained substantial state property for the 2000s.

During the 2000s Polish privatization process slowed down, partly because of the preparations for the EU-membership, partly, because of anti-privatization sentiment of the Kaczynski government. Donald Tusk's middle-right wing government reinforced the continuation of the privatization process, mainly because of the "traditional" business considerations. The Polish governments continuously subsidized many loss-making SOEs during the 2000s that contributed to a substantial increase of the state debt[14]. Thus, privatization was relaunched in 2007 as it is clearly seen in the statistics. The peak in terms of revenues was achieved in the year of 2000 with over 9 bn US$ preceded by

[13] On the effects of privatization on corporate restructuring in Poland see: Blaszczyk and Woodward, 1999.

[14] One should bear in mind that the Polish constitution limits the highest level of state debt, therefore the elimination of continuously existing black holes in state budget is also an important political priority.

year 1999 with revenues over 4 bn US$. The period of lull produced the highest value in 2004 with 3,5 bn US$. The privatization plan for the years 2008-11 was largely accomplished and realized revenues of 15,5 bn US$ (The Economist, 2011). It is therefore even more striking that the execution of the 2012-13 privatization plan was effectively banned. The question emerges: why? As we will later see the change in privatization policies had similar roots like in Hungary.

Polish privatization policy was at least as eclectic as the Hungarian, although there has also been a dominant privatization avenue in Poland. The 1990 legislation provided indirect and direct ways. The indirect way obliged SOEs to commercialize in the first step thus becoming a shareholder company, the shares of which belonged to the treasury. In the second step Treasury sold the shares in various ways, through initial public offering on the stock exchange, sale to strategic investor, or included the shares in the portfolio of the National Investment Fund program, the planned Polish mass privatization vehicle. NIFs were set up according to a 1993 Act, and the Polish government intended to add the shares of 512 SOEs to its portfolio. Due to continuous debates over the privatization methods in the parliament and the difficulty of obtaining consensus among SOE stakeholders the indirect path did not take momentum after 1993 either[15]. Some privatization through sales was carried out, and a number of SOEs were privatized on the basis of the communist-era bankruptcy regulations (Blaszczyk et al. 1999). In the vast majority of the actual privatization cases of the period commodification of the shares was implemented only on terms that were accepted by insiders. Outsiders could only obtain shares with the permission of insiders and this typically did not hurt insider dominance in shareholding (Woodruff, 2004).

The direct way foresaw simultaneous commercialization and privatization. It suggested three methods of de-nationalization after SOEs' commercialization, sale, contribution to a company established by the Treasury and the leasing of assets. Privatization leasing became very popular in Poland since it promoted asset purchases by insiders whose consent was unavoidable on the application of any of the privatization

[15] The parliamentary debates effectively blocked the introduction of worker control and self-governance supported by Solidarity movement. Yet, worker control over the privatization process was guaranteed.

methods[16]. Leasing made the purchase of the stock easier for insiders as compared with immediate cash payments. This method was a real compromise between liberal policies trying to enforce privatization and the Solidarity-backed worker self-governance that would not leave the nominal SOE status requiring the possibly the safe haven of government interventions (accommodation, bailing-out)[17]. However, the valuation of the SOE assets was regularly so high that it was beyond the financial capabilities of the company employees and made the involvement of outside investors necessary. Nevertheless, the employee council of the company had the right to invite outside owners, who were in most cases outside stakeholders; suppliers or customers of the firm (Woodruff, 2004).

As a result of the sluggish way of Polish privatization during the 1990s, primary privatization steps (commercialization) was typically not followed by the actual denationalization of corporate shares that remained in state ownership. As Blaszczyk and Woodward (1999) emphasized in the introduction of their paper by that time the general distrust of privatization just started to be compensated by the facts of its benefits. Moreover not only company managers but also the public had to realize the need of privatization for successful restructuring in the companies and the Polish economy as a whole. This recognition was regularly strengthened by news information about pending privatization cases that were finally closed and firms (mostly with foreign owners) started to produce profits at the expense of moderate reduction of employment.

Consequently, the years 1999 and 2000 witnessed skyrocketing privatization activity in Poland. This was due to the then favored direct sale method and the denationalization of some large banks and service providers. However, this momentum stopped in 2001 when the previous sluggish insider-oriented methods continued. A new revival of privatization sales started with the Tusk-government in power. After necessary preparations privatization revenues started to grow in 2009, reached the top in 2010 with over 6bn US$ and produced half of that level in 2011. The net privatization income of the Tusk-government between 2008 and 2012 reached 15,5 bn US$ (The Wall Street

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[16] Employee share ownership patterns of some Western democracies served as example for the advocates of this ownership form for the privatization process (Blaszczyk, 1993.)

[17] Discussions about the use of MEBOs in the privatization process highlighted the danger that capital and expertise required for company restructuring was not readily available for the new owners.

Journal, 9. 19, 2012). The same source already heralded the change in concept: large firms were regarded "strategic" and not to be privatized. This meant that the new, still rather ambitious privatization program for the years 2012-13 was not enforced with the momentum of the previous years. A strange halt in selling controlling shares of some "flagship companies" mainly in the financial sector was observed by The Economist (2011) already concerning the otherwise successful privatization campaign of 2008-11. Polish government seemed to pull the emergency break of the privatization train. This development, maintaining state assets is quite similar with the conceptual changes of state property policies in Hungary. The question is why is it more rewarding maintaining or even increasing state ownership? Do the rationales of the 1990s not apply anymore? Did governments become better owners? What conditions changed[18]?

3. The political economy of privatization and public property management

The political context of privatization was discussed in many aspects, out of which I will pick only two that could help us better understand the turn in the relationship of governments towards the status of state property. The first string of literature deals with the impacts of political influence on corporate restructuring in public and private companies. The other highlights the role of privatization in strengthening private property and the rule of law in a broader sense. These two aspects strongly determined the privatization process in CEE but also influenced the development of market economic institutions, thus contributing to the basic systemic elements of the capitalist model in CEE. The turn in state asset policy can also be explained at least partially with changes in these aspects.

[18] Kowalewski and Rybinski (2011) provided an interesting analysis of the developments on the ownership patterns in the Polish financial sector. They stated that remaining state ownership combined with rather efficient bank supervision through the authorities and the relatively developed capital markets jointly contributed to the better risk-bearing capacity of the Polish financial sector during the 2007-9 crisis. Strict prudential regulation, transparency in the capital markets (banks are obliged to list their shares, and are not simple affiliated companies of multinational banks) as well as better coordination with government policies due to substantial state ownership resulted in increased financial stability. On the other hand, FDI and capital market control reduced the risk of state capture too.

3.1. Concepts of the 1990s

Privatization was regarded mainly as an element of the neo-liberal transition policy mix during the 1990s. In this period the lack of expertise with market economic institutions and the important role of international financial organizations in conceptualizing and also financing institution development in CEE resulted in the strong influence of SLIP. The argumentation was described in rather sophisticated ways in the seminal paper by Boycko et al. (1996). This paper collected the empirical survey results on the inferior business performance of SOEs and provided a theoretical explanation of the phenomenon[19] . The starting point of the paper was the "commonplace observation that public enterprises are inefficient because they address the objectives of politicians rather than maximize efficiency. One key objective of politicians is employment: they care about votes of the people whose jobs are in danger and, in many cases, unions have significant influence on political parties." (p. 309) The average voter argument in the explanation of various features of business-polity interplay is often used, albeit its conditions are hardly controlled (it is out of the scope of modelling). Therefore, although the authors readily acknowledge that "excess employment is not the only politically demanded inefficiency of state firms…(they state that)… it is surely the most commonly noted one" (ibid). Based on the previous analysis in this paper it is likely that excess employment was a strong determinant in the Polish transition story, but it was much less relevant in Hungary, especially in the privatization process. In Hungary, political influence was more directed towards various more direct forms of political rent seeking. I will argue later, that this relationship became dominant in Hungary and motivated also the Polish policy makers, especially in the past 10 years.

The argument of the Boycko – Shleifer – Vishny paper continues with the comparison of direct state ownership and private ownership in terms of their options of maintaining excess employment, and the price of it. In the case of a SOE excess employment deteriorates corporate efficiency and therefore limits profitability. The price of maintaining employment level is foregone profits of the firm. From the ownership position politicians can easily move SOE managers to give preference to employment

[19] The survey of empirical results referred to studies carried out in some developed market economies including the USA and many developing countries. No transition economies could be included by that time.

against profitability. The paper allows the use of bribes for that purpose. We know now from CEE experience that there was no need for that: SOE managers remained as they were before the transition executors of the political will. They were nominated and withdrawn by the same political formation that also directed them. This was a kind of survival of state paternalism, and also the soft budget constraints.

The paper assumes that there is a political power in the CEE transition economies that sincerely aims a reform of the business-polity relationships thus allowing (former) SOEs better chance for restructuring. Reformers are confronted in the paper with vote-maximizing individual politicians, and privatization is a good vehicle to make politicians excess employment more expensive. Politicians keep on trying to influence business and achieve their political goals. In the case of private (privatized) firms however, this proves to be more difficult and expensive. In this case control over management may weaken or disappear, new shareholders' interests must also be respected, who are interested mainly in profits. Thus, excessive employment can be financed through state subsidies from the Treasury rather than by foregone profits. The main question of the paper is why would a politician fail to buy his way to high labor spending through subsidies? In this case subsidies are financed by excess taxes or inflation, both of them are extremely unpopular. "The public and the reformers may not be aware of the potential profits that a state firm is wasting, but they are keenly aware of the alternative uses of tax revenues, and would not wish to spend public money to subsidize private firms not to restructure. This difference between the political costs of foregone profits of state firms and of subsidies to private firms is the channel through which privatization works…" (p. 311).

The paper also makes a statement about the desirable new ownership structure of privatized firms. From the perspective of the limitations of the influence of the vote-maximizing politician new owners' motivations and goals must be the furthest from this. Therefore employee ownership that is the effective access of controls, not just cash flows is not recommended. Workers are interested in excess employment and do not support restructuring. Due to their access to significant control rights even prior to privatization they could effectively bloc or at least delay privatization in some countries (e.g. in Poland). On the other hand control by large outside investors who are unlikely to

care about employment is superior. Incumbent management's position was thought to be in between.

This paper's argument and its conclusions strongly influenced the way how advisers and also reformers of CEE thought about privatization, especially concerning the elimination of close ties between business and polity[20]. The paper also highlighted the difficulties of privatization especially in the presence of strong unions (Poland). The suggested solution of selling to strategic investors was the dominant privatization method in Hungary, where the business rationale was ranked first as opposed by political considerations during the 1990s. Improving efficiency in the economy, strengthening the business rationale of corporate activities was the first important concern that privatization could support. Simultaneously, privatization also contributed to withering away the paternalistic links to the state and to hardening of the budget constraints of firms.

The other important string of literature on the relationships of ownership patterns and establishing property rights (institution building in general) is illustrated by an important paper of Andrzej Rapaczynski (Rapaczynski, 1996). In this approach privatization's role is described in the agenda of market economic institution building. At the heart of this process we find the problem of establishing the system of property rights and strengthening the rule of law. This is in contrast with the inherited CEE system that was characterized by uncontrolled paternalistic ties of the state with economic units. As it was shown, the actual implementation of the idea of central planning also suffered from the existence of cozy links among company leaders, party officials and central planners. Thus, we may state that this type of relationship (called paternalism in the communist era or crony capitalism in market economies) has similar roots. Strengthening of the property right regime and the rule of law through adequate ways of privatization could also contribute therefore to the break with the old paternalism and not letting transform it to the other type of cozy relations, cronyism. This ambition could certainly also contribute to better performance and higher efficiency of economic agents.

[20] Or maybe the paper reflected and conceptualized the mainstream way of thinking and practices.

The main message of Rapaczynski's paper is that institutions of enforcing property rights are partly legal partly social institutions. Legal institutions can work properly only if there is a general tendency in the society to obey the law, and only in few outlier cases must legal institutions be used. Hence, while it is important to have properly formulated and consistent laws and regulations as well as an adequate judicial capacity in the country, the rule of law can be established only if soft social institutions are also on place. They can develop only in a long social process. Hence, "the experience of post-communist countries in eastern Europe is a good remainder that economists tend to assume a can opener when one is needed. Indeed, the statement that property and contract rights must be 'put in place' assumes away one of the most interesting and intricate questions concerning economic development. The creation of a system of enforceable entitlements to the diverse and complex forms of wealth… is itself a process subject to economic laws…. it is in fact largely a product of market forces, rather than governmental fiat" (Rapaczynski, 1996, p. 87.).

Moreover, this co-development and co-existence of legal regime and other elements of the economic system is relevant "not only in democracies, in which economic power is always felt in the political process and has an impact on legislation, but also in authoritarian regimes, which need something more than force to maintain themselves. Consequently, the legal-regulatory activity of any government does not follow some abstract and predetermined rules, …but is basically reactive to the situation in the market…..The market determines the strength of the various interest groups that formulate their plans for governmental regulation…. and that regulation in turn modifies the forces of the market and the relative strength of the interest groups " (ibid, p. 88.). The development of the legal-regulatory system is therefore not an outcome of fully rational choice or recepy of economic advisors, but rather an incremental, competitive evolutionary process. Most property rights can only be marginally enforced by the legal system. In the process of coevolution of manifested and soft social institutions the "core of the institution of ownership is a matter of unquestioned and largely unconscious social and economic practices that must be rooted in non-legal developments" (ibid.). This system of soft social institutions supports the enforcement of property rights but also establishes credibility of various government policies. If people for whatever reason

come to believe that the government is able to enforce the law and policies this "very belief makes the sovereign in fact capable of making sure that its commands are obeyed" (ibid.) Woodruff (2004) also used this argument and argued that it is usually not the fear of sanctions that moves citizens to obey the law, but rather the recognition of the rationale and usefulness of the expected behavior. In an earlier paper I also emphasized the role of general credibility of CEE governments in their capacities to enforce their policies (Szanyi, 2002). But the same driver works also in the authoritarian countries (see: Yakovlev, 2006).

The main problem of property right enforcement in the transition process of CEE was the lack of time necessary for the coevolution of markets and legal institutions. These economies possessed a large amount of assets in their SOEs to be transferred into properly functioning company forms of advanced market economies on very short terms. Legal institutions could be created rapidly, but they were not accompanied by quick development of the soft social institutions necessary for their efficient enforcement. Most CEE economies still suffer from low levels of property right enforcement. The success of privatization in terms of higher corporate efficiency and restructuring required that state assets were put "in new organizational configuration, which already presupposes the complex types of entitlements characteristic of the advanced market economies…. Consequently, the background necessary for the transfer may be missing or incomplete, and the state…. might fail to convey them effectively to other parties" (Rapaczynski, 1996, p. 92.). Rapaczynski suggested therefore that reform steps in the transition process must concentrate also on the overall development of market institutions not just establishing the legal framework. He stated that "certain economic measures undertaken by the government may contribute more to the establishment of viable property rights than volumes of new codes and legions of new judges and policemen" (ibid)[21].

From the viewpoint of the main concern of this paper, the changing attitude of governments towards state assets, Rapaczynski also provided important comments. He directed attention to the fact that in CEE the state itself might be the most significant

[21] A positive confirmation of this statement can be the reform package of the Hungarian government during the mid 1990s.

threat to the security of property rights. "The role of the state in securing property rights from encroachments by third parties is probably much less significant than its ability to precommit credibility to respect these rights itself" (ibid). The first such possibility of encroachment is outright confiscations by the state. This happens relatively rare, but the constitutional and legislative guarantees against such takings "are usually quite fuzzy at the edges" and this fuzziness of the takings law is not accidental. The state routinely engages in its economic regulation in cases resulting in encroachments that are not considered compensable takings. General protection from a superficial spread of such takings can be provided by the political system together with the economic pressure groups "that ensure that the state does not go 'too far' in interfering with the owner's control over assets. This politically determined thin line may be understood as the real definition of property rights conferred by the state… In fact, without a significant historical record of state forbearance from excessive and redistributive regulation, it is hard to make the state's commitment credible….The threat posed by the state to the security of broadly defined property rights is particularly severe when the state also happens to own a significant proportion of national assets." (ibid, p. 93.).

In 1996 Rapaczynski's argument was in favor of efficient privatization policies of the time. But his statement on the dangers posed by the state on the security of property rights that intensifies with significant state asset ownership has more general meaning. Achievements in establishing market institutions may be easily broken if the "politically determined thin line" of property rights definition is shifted. Governments may establish both positive and negative historic records over time that promote or weaken social trust in property right enforcement. As it was emphasized, single economic measures and their enforcement may have bigger influence on the evolving soft social institutions in CEE than lots of new laws. If privatization is stopped or even reversed, if governments carry out unusually excessive takings as it was the case with the private pension funds' property in both Hungary and Poland, such steps demolish much of the weak and just evolving social institutions and undermine trust in the rule of law.

Another aspect of the dangers of excessive state ownership was also identified by the author. "A state that conducts much of its policy through the exercise of its ownership rights (which leave a lot of discretion to the decision maker) tends to neglect the

development of its regulatory capacities (where a certain degree of transparency and procedural regularity is required) and thus increases the degree of arbitrariness in the pursuit of its economic policies" (ibid). Academic papers usually assume that there is a progressive ambition in the countries and societies that drive development, and the scholars' task is to drive attention to potential dangers on development and suggest practices to overcome these. This paper suggests that privatization may be used as a tool to escape the dangers of property right enforcement stemming from excessive state ownership. But most current events in CEE allow me the observation that the current political setting creates incentives for the state to pursue policies that intend to achieve exactly those negatively perceived conditions that the papers of Boycko et al. (1996) and Rapaczynski (1996) call potential dangers on economic restructuring, corporate efficiency, the enforcement of property rights and strengthening the rule of law in general. It seems that governments in Poland and in Hungary wish to increase the arbitrariness of their economic decisions, to escape transparency and control, to find politically less costly ways of reinforcing political ambitions among others in SOEs. This is exactly the opposite than what reformers were expected to do. We owe an explanation of the reasons and the rationale of this policy.

3.2. Changing conditions and changing policies

Boycko et al. (1996) calls excessive employment the most typical political ambition that is forced on companies thus deteriorating their efficiency. But other forms of political opportunism and rent seeking are also plausible. They mention an article that described the perverse crediting policy of the state-owned bank Credit Lyonnais of France that favored clients of the ruling party. I believe that this type of rent seeking has always been more important than employment issues for vote collection.

I distinguish three types of actual cash transfers from the economy to politicians and their clients. One of them is outright corruption and bribing. In our case bribes go the opposite way, not from the politician to the manager to achieve excess employment, but from the manager to the politician and the bureaucrats to buy preferential treatment or simply a license of operation. The corrupt politician and bureaucrat (the bureaucrat usually also depends on the politician, as he is nominated to his position by his "boss")

may expand this activity to the extremes as it was conceptualized by Yakovlev (2006) with the notion of business capture, and Viktorov (2013) on corporate raiding. CEE's conditions are of course by far not that bad than in Russia, but corruption also exists in CEE. High level scandals that involved government officials and other highly ranked party politicians or their clients revealed the fact that countries like Hungary, Poland, Slovenia or the Czech Republic are not immune from this danger either (EU transfers to Bulgaria and Romania were effectively lifted due to high level corruption).

Corruption especially of highly ranked officials is sentenced by law. But there are other not necessarily illegal albeit seriously unethical opportunities of money transfers from the business to the polity. State ownership is most relevant in these. Positions at the commanding heights of SOEs are regularly filled by clients of politicians[22]. This practice on the one hand eliminates the conflicts between management and politician (there is no need to bribe SOE managers to take decisions in favor of the politician). But this gives also an opportunity of milking the SOE through various channels. A SOE is useful for this purpose regardless of its potential efficiency. The social cost of this practice is not just foregone profits any more but continuous cash flow from various state institutions (the state budget) that are transferred from the SOE to private uses. SOEs may finance various social and cultural events, deliver red carpet treatment to politicians, donate charity organizations or various activities of the government and politicians. SOEs are also used for the rewarding true clients of the politicians by for example financing expert fees to clients.

Of course the usage of SOEs for these purposes is not new and is observed not just in transition economies of CEE. However, this fact does not spare me the conclusion that current policies at maintaining state ownership is aimed at widening the rent seeking activity of political parties and governments. It is made possible exactly because of the low level of transparency and social control, and the activity causes the same types of problems that were described in the cited papers, and is therefore very harmful for the future of market institutions in CEE. The reasons of intensive rent seeking in CEE are manifold. Apart from personal gear we can state the lack of regulated party financing.

[22] Skuhrovec (2014) reported peeks of personnel changes in Czech SOEs' supervision bodies after national election years.

Political parties' budgets are very meager (at least in Hungary), and parties spend far more especially on election campaigns than what they are expected regarding their revenues. Also, positions in SOEs and various benefits received from them serve as remuneration for political services of clients. This is all made possible because of the lack of effective social and political (oppositional) control on the activities of SOEs.

There might be some changes in the practice of milking state property during the 25 years of transition in CEE. Apart from the active political involvement in SOE management the other main source of cash revenues was privatization. It is not just corruption that surrounded the process, but even more importantly the support of clients to obtain valuable state property at low prices. The process was well documented in the case of Russia, and some anecdotal evidence is also known for Slovakia. However, this practice was not absent in other Visegrad countries either. There are of course no statistics or even estimations on the extent of the asset value that was transferred to political insiders. However, there is a widespread belief in Hungary that regards socialist governments more successful in this process. Thus, perhaps the reallocation of state assets among the clients of the different parties was not even. This may explain why losers of the privatization race tried to find alternative sources of cash flow from SOEs rather than from insider privatization. State ownership may also provide a more stable platform for rent seeking (as long as political opposition does not take over the control). Privatized assets are not suitable for the transmission role either.

Thus, one reason of less privatization and more state ownership may be the changing structure of rent seeking activity by the politicians. Of course the decline of available state assets also contributed to this: the remaining assets are either notorious loss-making companies (like mines in Poland) that are not worth for insiders of possessing. Another part is large service providers that cannot be easily transferred to rent seeking private hands but are very much suitable SOEs for mass scale milking. Another reason may be the changing domestic and international environment. International organizations are not concerned so much about privatization any more than they used to be during the 1990s. Therefore international pressure for privatization declined[23]. In

[23] Kowalewski and Rybinski, (2011) compared the amount of legislative work performed before and after accession. They reported a steep decline in reform legislation in Poland after 2004 which might be due to declining outside pressure for reforms. Another analysis of Polish legislative work concluded that

2004 Visegrad countries became members of the club. Attention was directed to various other areas not so much to the conditions of market institutions or the level of state property. Of course, the status of the state budget is also influenced by the performance of SOEs as well as their state subsidies, but this is already an indirect link which can be easily covered. Also, the important business rationale fell in the meantime. On the one hand the overall condition of all transition economies improved (of course not because improving SOE performance but mainly due to the increased activity of multinational companies and de novo private firms especially in Poland), thus the presence of a number of loss-making SOEs could be more easily tolerated. Consequently, the third, political rationale redistribution of assets or more recently controls of cash flows became the strongest factor in the question of keeping or selling state property.

4. Concluding remarks: relevance for the CEE model of capitalism

What message does this analysis deliver to the concept of CEE model of capitalism? I believe that changes in political attitudes have an important role in the model. Increasing direct state intervention in the economy changes the rules of the game rather quickly in ways that were described in the paper. Weaker social institutions and deliberate government policies aimed at increasing discretional decisions and limit transparency may limit also the area of the rule of law. Uncertain and increasingly arbitrary business conditions will influence not only domestic but also foreign owners in their operations in CEE. Foreign firms' role as an anchor of the economy may diminish as they themselves change their operations or leave the region if they are not willing to adjust. Contrary to the assumption of the DME model I think that governments can also influence multinational firms' activities. Governments may try to use this to their favor sometimes even at the risk of withdrawal of the foreign companies. This policy is easily sold to the societies by populist statements of the governments.

The populist argument frequently refers to the fact that there are good examples of successful and efficient SOEs. The idea of incorporating SOEs in the economic system is

much of the stoved regulatory work served various interest groups and can therefore be regarded as expression of state capture, The situation did not change after accession, nevertheless, research discovered weaker presence of state capture in legislation after 2007 (Alwasiak et al. 2013).

therefore not from devil. I do not think however that SOEs' role in CEE models is identical with any of the other European capitalist models. We should not forget the condition for adequate SOE activity, which is effective social and political control. SOEs in CEE are rather used for rent seeking of politicians.

A further lesson for the CEE model is therefore the outstanding importance of social and political control institutions. None of the models has dealt extensively with this aspect. They implicitly assumed that foreign control can withhold CEE governments from flirting with illiberal political and economic solutions. It seems that this control lost efficiency after 2004, and there was no effective internal control in the CEE countries. The loosening of democratic control tempted ambitious politicians to move the economic and political system away from the traditional Western norms towards an authoritarian model more typical in the East. In fact, this type of shuttling between East and West, democracy and autocracy has always been characteristic for the countries of the region. The most harm is caused by the shuttling itself, because it is always bound to sizeable institutional changes which are always very costly. But even more damage is caused by the unreliable always changing environment that makes long-term business planning impossible. From the viewpoint of doing business the countable environment with some secure institutions (security of property rights) even in autocracy may be more valued.

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