THE COMPARATIVE ECONOMIC AND SOCIAL POLITICAL ANALYSIS
OF EUROPEAN PRIVATIZATION MODELS

(Western European market and Central and Eastern European quasi market
privatization procedures in the alteration of the states’ business property, between
1977 and 2012)

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1. The antecedent and motivations of the research

The research and the writing of this dissertation were motivated by several factors. First, I have to mention that the Hungarian government proposed their report on the process of privatization\(^1\) to the Parliament in 2009, in which they pronounced it as closed. This lead to the decision to start over researching and examining\(^2\) the completion of a process of economic-historical significance in the life of Hungary and of other post-socialist countries, to measure its results and social-economic consequences affecting these days and the future as well. Parallel to this, the question arose in me why the privatization process, starting in the 1970s, significantly transforming the social and economic structure, has started, how it came off and what consequences it had in other, non-transition countries (Great Britain, France).

After the case study-like description of the above, it seemed self-evident to do a comparative investigation among the three privatization models\(^3\), and to evaluate how efficient the ownership change of the state’s business property was and what impact it had in the three countries, from the aspect of budget incomes and public debt. I placed great emphasis on these from all the economic aspects of privatization because significantly less theoretical and empirical research was done concerning these fields than about other relations. For me, it was relevant to answer also the question to what extent the British method, which I consider as a standard from both an economic- and social-political aspect, lead to other, perhaps to better results in the previously exemplified segments, compared to the practices of the two selected post-socialist countries (The Czech Republic, Hungary).

The second motivational factor was that, although the role of privatization during the transition is a sufficiently unfolded field, there is significantly less research about the function of privatization in the transformation of society. It seemed a particularly interesting research task to examine this, the methodological basis of which was a study by two American authors,


\(^2\) Among the motivations, I have to mention the fact that I defended my university doctoral dissertation in 1996 at the Department of Economic Policy of the Budapest University of Economic Sciences and Public Administration. Its topic was the introduction, analysis and evaluation of Hungarian techniques that I define as an atypical privatization procedure (privatization with compensation notes, MRP, KRR, privatization of the property of industrial cooperatives etc.). These were the typical privatization procedures of the period from the beginning of the transition to 1995 – if we don’t take spontaneous privatization into consideration –, because the market-type cash techniques became naturalized and were expanded only after these methods; their theoretical and empirical literature was very modest.

\(^3\) In the institutional and comparative economy, it is not the mathematical formalization of numerical relationships that we call a model. The model is a type of generalization of reality, the introduction of its most important features as “stylized facts,” which helps create the overall picture. So it is implicit that model, in this sense, does not carry a Kantian normative content; it is not an “example for the world.” (Csaba, 2011: 816)
classifying the ongoing privatizations in the globalized world economy. The authors examine the privatization of the state (public) property not from a traditional economic approach but from the aspect of what specific means and result it contributes with to the transformation and alteration of society’s structure and its members’ approach, affected by privatization. This is a notably less studied research field of the state (public) property’s privatization, independent from the social system.

The third motivational factor was that the non-direct increase of public debt, caused by the developments of mortgage market (subprime) crisis, starting from the USA, shaking the economic-financial institute system of Western Europe (Király et.al., 2008; Gros, 2011; Reinhart – Rogoff, 2011), increased the social interest in the privatization, as the economic political instrument that is able to reduce it. As others investigated (Barabás et. al., 1998; Kotosz, 2006), the incomes of privatization are suitable to reduce public debt, so there was the obvious opportunity for me to examine, in relation to Western and South European nation economies being in the deepest crisis of public debt financing, the members of the so-called PIIGS group of countries (Portugal, Italy, Ireland, Greece, Spain), to what extent it is possible for them to use the privatization of their assets to reduce their gross consolidated debts.

In my opinion, the dynamization of privatization has become current by now partly because the countries suffering from a public debt crisis can introduce budget restrictive provisions only at the cost of increasing social tensions, risking often the explosion of social dissatisfaction with them. The reserves existing in the expense items of the national budgets are exhausting; the times are gone even in relation to old union member countries when the national budget could be balanced in merit by consolidations of the expenses. The experiences of old member countries of the Union from the period of adjustment and increase between 1998 and 2004 show that they performed differently in the budget adjustments, by identical external constraints. Győrffy’s study (2008) finds that the really successful countries proved to be those where the internal commitment (leading primarily to the reduction of expenses), based on social consensus, besides the balance of the national budget, has evolved even independently from joining the Eurozone.

Nowadays, in the countries mentioned above, it is increasingly difficult to introduce the latest budget withdrawals by social consensus, which is the reason why the instrument of privatization, generating budget incomes and thus being directly available for the redemption of public debt, has become of great importance for national economic policies.
I believe that the attitude is intensifying also in the professional public opinion – which I also concur with and which I urged in several studies of mine –, according to which the instrument of privatization needs to be intensively involved in potentially emerging opportunities to solve the debt crisis. The sale of existing assets owned by the states would significantly dynamize the process of dismantling the public debt. Actually, there are assets to be privatized, since the estimated state asset rate of the Eurozone countries, compared to their GDP, is 37,4 percent but among the countries being in the deepest debt crisis, the proportion in case of Greece is 61,9%, Ireland is 44,0%, Italy is 27,3%, Portugal is 45,1%, and Spain is 29,3%. (OECD, 2013)

2. The structure of the dissertation, the applied methodology
2.1. The structure of the dissertation
The introduction chapter contains the presentation of the dissertation’s choice of subject, research antecedents and motivations, the composition of research issues and hypotheses and the description of applied methodologies.

In case of privatization, the participating parties – during a legal act – make a decision concerning a property. Consequently, it was important to present the relationship between property, which is the unit of privatization research, and law and economics. This is followed by the brief introduction of the three selected European privatization models and the explanation why they were selected for analysis.

One of the theoretical planes of selecting and comparing the three models is how some procedures relate to a privatization, which is “textbook-like and can be performed marketwise.” The other theoretical base of their involvement in the same examination was the realization that prevailing politics could not be circumvented in privatization, and the process was about significantly more than solving an econometric optimization task, regardless of which part of Europe the owner of the state (public) property was changed in. And the third link is that the privatization of the state’s business property played a relevant role in all three countries, although to various degrees, from the aspect of how it contributed to the

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4 Two internationally acknowledged researchers of economics published their study nowadays about why and how the debt crisis of the Eurozone should be treated reassuringly. In this complex package of measures, they mark privatization as one of the most significant instruments besides the realization of budget surpluses and the restructuring – partial forgiveness – and monetization of debts. (Pâris – Wyplosz, 2013)

5 By examining privatization from this legal approach, it does not matter if it is the privatization of state assets by any technique in the process of transition or it is the privatization of state ownerships for any purpose from a social political aspect, which is otherwise ordinary in a developed market economy.
improvement of the condition of the country’s national budget, and to the reduction of its public debt.

The most controversial problem in relation to public debt in the examined period and countries was perhaps the issue of utilizing privatization incomes. The reason is that we have to distinguish two cases when examining incomes realized by selling state assets: when the income is realized as foreign currency, and when natives purchase state assets for their own national currency. I expose these differences in the relevant section of the dissertation’s introduction. In the case study-like presentation of the privatization practices of Hungary, the Czech Republic and Great Britain, I illustrate their relations to the national budget and the public debt one by one.

The dissertation then provides the broad and narrow interpretations of the concept of privatization, describes the theoretical roots of and rhetorical approach toward privatization and finally offers a detailed analysis of the ex ante expected possibilities of the countries encountering a public debt financial ceiling, in case of applying the instrument of privatization to reduce their indebtedness. Concerning the above, I have to further mention the followings:

First of all, it is essential to present the theoretical roots of privatization. In relation to the privatization of state (public) property, I have to mention at least three theoretical fundamentals because the theoretical roots of ownership transformation appear differently in various trends.

There are normative theories that justify privatization as the desired direction of the political activity; they draw on their inspiration from various visions – displaying good society. What has become the most influential from them in theoretical economics is the one based on the laissez faire principle and the economy relying on the free market, and which promises greater efficiency, less government power and more individual options by expanding the sphere of market forces and ownerships.

Another perception, which roots in the conservative traditions of social approach, promises the strengthening of communities if families, churches and, in a broad sense, other non-profit organizations are entrusted to social care to a larger degree. In this theory, privatization means a return to its forms that are free from the state, the human cooperation policy and business.

However, a third perspective considers privatization to be a strategy aiming at the deviation of demands against the state and at the reduction of the government’s “additional burdens.” This
last opinion – which is identified as the neoconservative ideology of the late 20th century in particular – does not necessarily conflict with the previous two, although each of them suggests an analysis and policy of different structures. So the relevant differences are in the details.

In the ninth subsection, I present the rhetorical approach of privatization. The first appearance of the subject of desetatisation in the public discourse was around the 1970s, when the privatization of income generating state asset items and rented dwellings emerged in Great Britain (and soon in France). After a preparatory work of some three years, in 1977, the process of privatization was started along the principle of the prevailing mainstream economic thinking about decreasing the state’s role.

As it was formulated by Szanyi (2006), privatization was not invented by transition countries. In two of the strongest economies of Western Europe, the denationalization of state-owned businesses was in full swing, while Central and Eastern European countries arrived at the historic event of transition in the late 1980s, the economic fundamental of which was the breakdown of state ownership and its privatization. During the period between the 1970s and now, privatization, both in an economic and in a rhetorical sense, was unavoidable in Europe. Nowadays, privatization re-classifies European economic policy primarily by becoming one of the most significant instruments to reduce the public debt of a group of countries suffering from a financial crisis, through the forced sale of state-owned enterprises and other assets of these countries.

At the end of the section, I analyze today’s most significant privatizations of the European Union that are dominantly aimed at the reduction of public debt.

In section II, I introduce the privatization’s theoretical framework. First, I illustrate the context of ownership and efficiency; interpret the relation of state ownership, privatization and transaction costs, and the market failure as one of the causes of the existence of state-owned enterprises.

First of all, I describe the various judgments of ownership in relation to efficiency, which is almost unavoidable in a dissertation about privatization because this latter has the broadest literature, furthermore, most of the empirical research was done in relation to this aspect of examining privatization. Among these, I would like to highlight the followings: The primacy

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6 By mainstream we mean the well-defined system of theories, which dominates the leading professional journals (American Economic Review, Journal of Political Economy, Journal of Economic Literature stb.) and the most used textbooks.
of ownership is stated by De Alessi (1980: 39) as follows: „Ownerships matter. Various systems of ownership affect behavior and welfare significantly and comprehensively. The differences of the structure of rights attached to the utilization of resources influence behavior systematically and in a predictable way.” The impact of privatization on economic efficiency in relation to businesses is judged positively by several studies. (Megginson, 1998) According to a survey conducted among more than 200 privatized enterprises of around 40 countries, the profit per sale increased by 2.2 times, the sale per employee to 127%, the investments by 2.3 times and the issue to 126% after privatization. Parallel to this, the number of employees grew by 1.01 times, the sales share rose from 2.8% to 5.3%, while the degree of indebtedness decreased to 90%. (Bortolotti – Milella, 2006)

Exceeding the previous group of companies, the study of Claessens – Djankov (2002) examined the performance of 6,000 privatized enterprises of seven transition countries. They state that the positive effects of privatization statistically become more and more significant as the time from privatization increases. While the growth of productivity is similar to that of state-owned enterprises during the first two years after privatization, the results of privatized businesses significantly exceed that of the state-owned ones after three or more years. (Claessens – Djankov, 2002: 307) Although, referring to the studies by Frydman – Rapaczynski (1994) and Djankov – Murrell (2000), they also confirm the relevant statement (which I also prove in the dissertation) that the method of privatization indeed can make a difference, since it has a definite importance with respect to the efficiency of organizational function. So corporate restructuring depends on the specific method of privatization. In Eastern Europe, empirical literature usually experienced a strong positive effect in this field, while privatization did not or just slightly affected this area in the states of the former Soviet Union. (Claessens – Djankov, 2002: 323)

The change of efficiency of the state-owned property’s operation after privatization was examined by several studies in Hungary. There were significant differences from the aspect of by which technique the privatization was carried out and mainly whether the privatizing party was an insider or an outsider. A research, conducted by meta-regression analysis among Hungarian enterprises discovered – besides further relevant results – that ownership transformation for foreign investors has more significant positive effects on the improvement

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7 The countries of the examined enterprises’ offices were: Bulgaria, the Czech Republic, Hungary, Poland, Romania, Slovakia, and Slovenia.

8 According to the study of Pistor – Turkewitz (1996: 239), comparing the Czech Republic, Hungary and Russia, the selected privatization policies in certain transition countries are country-specific from several aspects, which they explain with the bureaucratic traditions of the given country and with the diversity of their private investors.
of the privatized companies’ financial and functional performance than that of the transfer of entrepreneurial ownership for domestic investors. (Iwasaki et. al., 2010)

Not only the changes of the state’s corporate assets cause a heated debate among professionals but also those of the efficiency of public services after privatization. At the same time, many authors argue against privatization by claiming that the condition of creating competition is not the transfer of ownership. Competition is not created merely by privatization; only a state monopoly hands the activity over to a private monopoly. They highlight that by involving private monopoly, the interest in profit appears, which may make the service more expensive. Osborne and Gaebler try to support their argument by expressive examples, according to which „…it is not true that private business is always more effective than the work of the state. The important difference lies not between communal and private ownership but rather between monopoly and competition.” „….under competitive conditions, public institutions often perform their duties as good as private businesses.” (Osborne – Gaebler, 1994: 102-103) Others also emphasize the importance of competitive conditions as opposed to ownership: they describe the beneficial effects of competition; although they draw attention to that the transfer of ownership is not a condition of competition. A similar position is represented by one of the reports of UN, according to which „the privatization of the state monopoly is not an ideal solution, since benefits from efficiency cannot be handed over to consumers but remain at the operator as monopoly profits.” (United Nations Conference on Trade and Development – cited by Illés, 2000: 41)

Most of the empirical research cited in the first part of the section proved the more efficient operation of privately owned resources and their more successful utilization. After such experiences, the question arises of what the existence of state ownership could be justified with and what relation it could have with transaction costs. I present the related and most relevant theories based on the study by Voszka (2005). In economics, the public interest theory can be considered as the origin of state ownership⁹, which usually judges the effect of government interventions favorably, by assuming that decision-makers represent public interest in possession of perfect information: they can recognize commonweal and act in favor of this (and only of this). According to the view of this theory concerning state-owned

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⁹ The emergence of the theory of public interest was the result of Pigou’s and others’ works in the 1930s. The theory of public interest broke with the previously idealized portrayal of competition and showed that the presence of market power, internal and external economies and a variety of other phenomena in unregulated markets may have harmful consequences from the aspect of public interest. If the aim of the regulation is the social efficiency of regulated markets, its tasks include the prevention and elimination of these harmful consequences. (Kiss, 2003)
enterprises, the quality of services is improved, their price decreases, the control of the industry is more efficient and the management of the state-owned enterprise enforces public interests, as a result of public ownership.

Others emphasize the positive impact of state ownership on the development of economy and technology and on employment. This logic leads to the previously mentioned opinion that state-owned companies can be as efficient as private businesses, under clear competitive conditions. In case of imperfectly operating markets (for example loaded by externalities or monopolies), state ownership is better than the unregulated emergence of private interests because it can correct errors.

The new institutional economics, relying on the theory of transaction costs and organization theories in connection with the existence of state ownership, focusing on institutional environment and on management systems (integration or coordination mechanisms), places emphasis on the analysis of uncertainty, path dependency and bargain processes between each group of performers.

Among their statements related to state ownership, the followings are particularly important:

1/ The contrast of principal-agent\footnote{The problems of principal-agent relation are discussed by the dissertation in details in section III., when presenting the primary privatization of the Czech Republic.} is specific not only to the relation of the owner and the management but also to that of politicians and their voters. (Yarrow – Jasinski, 1996)

2/ There is a strong affinity between the particular types of ownership and the defined management systems: „...the dominance of state ownership and the bureaucratic coordination over other coordination mechanisms is a close phenomenon.” (Kornai, 1993: 128)

3/ It is not self-evident that government intervention and state ownership are appropriate for the validation of public interests, for the correction of market failures. Based on limited successes, the twin of market failure can be formulated, which is government failure. (The original source is Coase, 1964) The main causes leading to this failure are summarized by Stiglitz in four factors that already were referred to when analyzing the previously presented theoretical frameworks: restricted information, response methods of the private market, the limited opportunity of controlling the professional administration and the specialities of political processes (for instance, the weakness of knowing and following public interest, the influence of special groups of interest). (Stiglitz, 2000: 28–29)
The relevance of privatization can hardly be understood without knowing market failure – the relation of the state-owned enterprise and politics therefore I wish to highlight this in the third subsection.

In general, economics literature, as well as the study by Atkinson – Stiglitz (1980), consider state-owned enterprises to be the manifestations of market failures. Their existence is explained by that we need state-owned enterprises because the equilibrium emerging in the market without them is not necessarily optimal, on a social level. Some claim that these enterprises are adequately efficient under competitive conditions, while others do not accept that state-owned companies would be as efficient as privately owned ones in the competitive market and they question it even theoretically whether competition could be accompanied by state ownership. According to their reasoning, the interventions of politics divert enterprises from market rationality even under such conditions.

This opinion is represented for example by the study of Shleifer – Vishny (1994) as well. With their applied model of three performers (state, politician and state-owned enterprise), they analyzed the possibilities and effects of politically influencing state-owned enterprises. One of their statements was that politicians encourage these enterprises to employ more people compared to their tasks\(^\text{11}\) because they hope to earn their votes for this. Politicians use supports to convince the managers of enterprises that the company should follow certain political purposes. It was shown that potentially profitable companies are the best candidates of privatization because private investors are not willing to give profit up by employing additional staff, however, hopeless enterprises still need support. Finally, privatization has likely to be performed when reformers wish to restrict public expenditures and for this reason, state-owned companies cannot receive significant allowances. (Shleifer – Vishny, 1994: 1023–1024.)

In other terms, as the main rule, the aim of the creation-maintenance of state ownership is to eliminate the autonomous, profit maximizing corporate management and competition. This means that the competition’s effect depends on the enforcement of political influence. And politics is likely to intervene because it can collect profit without having to bear the direct and indirect costs of this (that can be measured by the supports and the loss of efficiency). (Boyco

\(^{11}\) For example, European state-owned airlines employ 48% more people than American privately owned airlines, or the government bodies of the USA can provide the same quality of service as private enterprises, only with 20–30% more employees. (Shleifer – Vishny, 1994: 997.)
So in case of a conflict, the role of ownership is stronger than that of the competition.

In the fourth subsection, I present the heterogeneous political, economic and ideological causes of the privatization of transition countries and developed Western market economies. I explain also that privatization has a different motivation, interpretation and judgment in the politics and practices of transition countries and developed Western-European market economies. The difference between the privatizations of developed market economies and national economies based on bureaucratic coordination is meant by the basic fact that privatization performed in developed market economies was not linked to political and economic transition anywhere. This explains that the relative size of state assets sold there, compared to the GDP, was at most 15-20% of which was and will be sold in post-socialist countries. Following the above, - only on a theoretical plane here – I present ownership transformation in Eastern and Western Europe and I define privatizations explaining path dependence in Central Europe.

Finally, I refer to the difference between the direct and indirect privatization incomes of the national budget.

In chapters III., IV. and V., I present, in a case study-like way and in order, the different ideological motivations of Czech, Hungarian and finally British privatizations, the political motivations of distributing and/or selling state (public) property and their economic and social political intentions. Since, in my opinion, technique indeed matters in privatization, the detailed description of the selected procedures of the three countries is also part of these chapters. The sections include also the presentation of the European privatization of more than three decades, from the beginning of British privatization in 1977 to its Hungarian completion in 2009, its breakdown by national economies and its relevant details. Privatization procedures of all three countries had typical terms with specific features, so I divided them according to these features. The created phases are different from the known temporal sections, partly because I consider privatization not as a closed but as an ongoing process and partly because I detected also a so-called “pre-privatization” phase in case of the British.

In chapter VI., we can find the analysis of the three countries’ privatization from a social political aspect. In this section, I analyze privatization from another perspective, which provides the dissertation a further novelty. Several studies, dissertations, books were published, symposia and conferences were also held on the comparative analysis of state asset
privatization from the aspect of macro- and microeconomics. On the contrary, no studies and only some comparative analyses were published on one of Europe’s most relevant social-economic processes of the last three and a half decades – privatization –, classifying it from a social political aspect. So in this chapter, I wish to examine, analyze and classify the phenomenon of privatization (which is mostly considered by social sciences as economic) from a new perspective, which is social political. Concerning such social political analyses, Csontos says (1997: 557): „I would start the analysis of the relation of economics and politics by emphasizing that the economic approach of human behavior may be limited. Namely, although human decisions are rational but not only economic considerations may control them. Such decision could be the choice between competitive academic theories and alternative methodological programs. I think that some parts of the guiding principles behind political decisions are not of economic nature. Economics has a double demand in relation to the examination of politics. First, the economic analysis of politics includes the use of substantive, normative and positive theories about political behavior, second, it requires a determined theorizing strategy.” The reverse approach of the cited idea suggests to me that basically the phenomena of economic subject can (and must) also be examined from a (social) political perspective but we have to create some theoretical models before starting it.

The theoretical model of my analysis is provided by the study of Feigenbaum – Henig (1994), which suggests the analysis of privatization from a completely novel aspect, instead of the usual economic approach. The basis of examining the privatization of state ownership from this aspect is provided by the researchers’ realization that privatization can be understood and examined as a social political category and not only as a technical change or as an economic instrument. According to them, privatization from a social political aspect is the change of institutions and decision-making mechanisms to allow the power to privilege certain groups, over others, during the distribution of state assets. And this adequately meets the basic purpose of social politics, according to which it „….aims the definition (changing or preservation) of places occupied by certain social groups within the structure of society. … The social political action depends on the powers of groups, ultimately on the outcome of advocacy processes. Social politics is based on values that are related to the propriety or impropriety of social structure.” (Szöllősi, 2003: 6)

The application of classifying methodology provided an opportunity to me to classify – based on the features detected – the privatization of state assets of the three examined countries that were privatized through significantly different privatization institutional procedures.
Chapter VII. includes my conclusions and I describe the theses of the dissertation here, in which I present my opinion related to hypotheses drawn up in the introduction of the dissertation.

2.2. The methodology applied in the dissertation

The dissertation – due to its interdisciplinary nature – requires the application of several methods. As a methodological framework, I primarily use comparative economy to prove “classic” economic hypotheses, which, due to its interdisciplinary approach, does not consider institutions to be neutral; besides the new institutional economics\(^\text{12}\), it provides an appropriate basis for the relative analysis of (privatization) models and the economic systems as well.

Comparative economy distinguishes four different levels of the body: „on the highest level, economic theory is more or less independent from space and time and it examines general relationships. One level below, institutional economics interprets theories in a given institutional and historical context and replaces them with given institutional conditions. On the third level, economic political theory examines, more specifically than the previous, how the obtained results can be applied in a period or in case of a group of countries. Finally, the fourth level is the description of questions to be decided in a specific period of a specific country, the analysis of the situation and the development of suggested solutions, namely the level discussing economic policy.” (Bara – Szabó, 2004: 31) In the dissertation, my aim is to extend the analysis to all four of the above levels discussing privatization and to summarize its results and conclusions.

After this, I examine the state asset-privatizing processes of the three countries from a social political perspective. The previously cited American authors, Feigenbaum – Henig (1994) worked out the typological methodology of privatization from the above-mentioned aspect, the substance of which is that it can rather be interpreted as a political concept than as a technical change or as an economic instrument. So along the methodology of this, I examine the privatization practices of the three countries, presented in a case study-like way in the first part of the dissertation, from an aspect fundamentally different from the approach of economic comparative analysis.

\(^{12}\) “The new institutional economics, unfolding from the 1970s, focuses on the research of institutions but the market is not discussed explicitly in this branch of economics. … Among the two basic institutions, market and enterprise, the new institutional economics focuses only on the explanation of company, besides the existence of the market: „in the beginning, there was the market (...) From this aspect, company exists because failures emerge in the market due to transaction costs.” (Kapás, 2003: 1079–1080)
The previously mentioned study distinguishes three forms, from a social political aspect, of political institutions controlling privatization, based on their objectives to be achieved: pragmatic, tactical and systemic. In my analysis, I also start from this classification. I analyze the privatization practices of the three examined countries based on their effects, instruments and consequences and I list them in social political categories; in other words, I classify them. First of all, it is relevant to define the three privatizations separated by their basic purposes:

1/ privatization is pragmatic when it offers short-term, mostly ad hoc solutions to acute (primarily budgetary) problems,

2/ we talk about tactical privatization when its aim, in the short run, is to reward certain social groups, and in the long run, to acquire their support,

3/ privatization is typical systemic when it is grounded by a political ideology and pursues structural changes.

In each case, I support verbal and qualitative statements and conclusions of my analysis from a social political perspective by the results of quantitative methods as well.

Finally, I examine the emergence, changes and comparison of formal political and economic institutions in the analyzed privatization period with currently approved methods of institutional economics, in relation to Hungary and the Czech Republic. Mostly, quantitative indicators applied in the EBRD (European Bank for Reconstruction and Development) Transition Report and transition indicators of the ECB (European Central Bank) helped me with this.

3. The main issues of the research

1. What social political principles and social economic purposes defined that by which privatization method shall state (public) property, as “scarce resource,” be privatized in the selected three countries being in a significantly different position in the globalized world economy; what are the characteristics of each selected privatization model; how did they affect national budgets and public debts?

13 Since economic policy is not an exact science, it largely depends on the ideological orientation of the government of a given country. Different purposes are important in the economic policy of a government following a conservative, a socialist or a liberal ideology. By examining the economic policy of the last few decades, we can state that typically two schools of thought were dominant: the monetarist and the Keynesian schools. (Veress, 2001)
2. What processes, in recent years of the world economy, did – not in relation to transition – raise the interest of politics in privatization as an economic political instrument, in relation to economies being in the deepest debt crisis? What size of a debt reduction is made possible by the possessed state assets that could potentially be privatized by private investors, for states of national economies of Eurozone countries (all members of the European Monetary Union) encountering a financial ceiling, and what other positive effects can be generated by privatization in these national economies?

3. A privatization method seems to be a technical choice only at first sight, so it is relevant to answer how the significantly different privatization procedures of the three national economies contributed, from a social political aspect, to the change of powers of the concerned societies’ groups and layers, to the modification of the citizens’ expectations towards the state, what institutional changes did they induce and how these models can be classified by privatization classification methodology?

4. The theses of the dissertation

My analyses conducted in the first six chapters and the conclusions drawn from them provide a sufficient basis for me to briefly summarize the results of my research, to examine the hypotheses drawn up in the first section based on these, to check them empirically and to make a decision about accepting or rejecting them. For this, I used – beyond the case-study like descriptions of the privatization practice of each country and their economic comparison – the classification of privatization from a social political aspect and the theoretical and methodological bases of the new institutional economics.

1. thesis: When comparing economic increases measured in the initial privatization period of Hungary and the Czech Republic, the data of the Czech Republic shall indicate a leeway compared to Hungarian numbers, as expected from the operation of state corporate assets handed over/distributed without an offset. In this case, as a result of unreal, not profit-oriented ownership structure, companies that have only been quasi-privatized shall fall away from the maximum production allowed by the efficient use of their production factors, which results in a low economic growth on a national economic level. As opposed to this, Hungarian companies, privatized by a market method against cash, induce higher economic growth, by utilizing their production factors more efficiently.
In the beginning, primarily – but not solely – private sector was growing more dynamically in the Czech Republic than in Hungary, as a result of privatization. However, as regards the meaning of data resulting from EBRD statistics, used for the verification of this, I have reservations. In fact, in my opinion, the data of the private sector’s increasing proportions in relation to the Czech Republic indicate the share of the “not state-owned” sector in the production of GDP. Namely – as I proved it in the previous parts of the dissertation and in chapter III. in particular – state assets distributed free of charge in the first phase of Czech privatization were received by private owners who managed irresponsibly and who were not profit-oriented. The Czech Republic needed several years to the transition of this mass of assets to a real and sustainable concentration of owners.

Table 1.:

The economic growth of the Czech Republic and Hungary between 1993 and 1999 in the percentage of the GDP

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<tr>
<td>Czech Republic</td>
<td>0,60</td>
<td>2,70</td>
<td>5,90</td>
<td>4,07</td>
<td>-0,73</td>
<td>-0,76</td>
<td>1,34</td>
<td>1,76</td>
</tr>
<tr>
<td>Hungary</td>
<td>-0,58</td>
<td>-2,95</td>
<td>2,54</td>
<td>0,66</td>
<td>3,88</td>
<td>4,77</td>
<td>4,10</td>
<td>2,29</td>
</tr>
</tbody>
</table>

Data: IMF, 2011, own calculation

(Average: the value calculated from the data by the method of trend calculation’s moving average)

As opposed to the statement of the hypothesis, the Czech growth-indicating data did not fall away from the Hungarian until 1997; on the contrary, values were higher. So during voucher privatization, there was no leeway compared to Hungarian values. The fallback of the Czech economic growth after 1998 was right at the time of abandoning voucher privatization and the raise of market sales, as a result of which, it cannot be explained by the weakness of this privatization method. The growth lasting until 1997 was extensive, and the fallback was caused by the related economic political actions and not by privatization, since the form of ownership actually did not change. These actions included primarily the currency’s devaluation, state subsidies, the distortion of competition etc. All these softenings and the quasi inefficiency of voucher privatization caused the second transformation fallback at the
end of the millennium together in the Czech Republic, which caused the introduction of temporary import deposit system, the correction of administrative prices, fiscal restrictions and the withdrawal of wage outflow.

At the same time, the above-mentioned growth-indicating data of the Hungarian economy justify that privatization by the market method does not guarantee that a higher level of economic growth can be realized compared to an economic increase belonging to a non-cash privatization without an offset. In relation to the currently analyzed period, the assumption of a dynamic economic growth expected from the Hungarian privatization at the beginning of the process came from that the business assets of the state mean a significant part of national assets. A second hypothesis was drawn from this, according to which, the expected production-growth in the competitive sphere after the privatization of the competitive sector will result in the fast growth of the entire Hungarian economy. However, these expectations – as indicated by the above numbers – were not met.

2. thesis: In selecting the specific method of privatization, the shortage of the national budget and the public debt value rooted in its cumulated amount of earlier times had a determining significance. The higher the proportion of gross public debt compared to GDP was, the higher the probability was that any government chose the market-type cash privatization method ensuring the highest budget incomes.

At the beginning of the privatization of state (public) property, Great Britain, then Hungary and finally the Czech Republic had the highest public debt rate. By referring to IMF, Cottarelli (2011: 5) claims in his study that in the early 1970s, Great Britain had a gross consolidated public debt of 80%, which was unusually high at that time. This was twice as much as the related data of the most developed G-7 countries and four times more than that of France.

At the beginning of institutional privatization in 1990, Hungary had a gross consolidated public debt of 68%, compared to GDP. (Csillag, 2001) The country tried to reduce or maintain this high level of debt inherited from the socialist system basically by maximizing cash privatization incomes. From the transition countries (behind Poland), this second highest public debt rate encouraged the government in power controlling privatization to sale state assets without any discounts at the highest degree possible and to use part of the realized incomes to reduce public debt. In the period between 1990 and 2009, an amount of 1.905
billion Forints was directly and indirectly paid in the national budget from the privatization income of 2,550 billion Forints, discussed in point 5. of chapter IV. in details, mentioned in relation to Hungary. (Mihályi, 2010) In case of incomes of this size, it can be stated that they had a very significant role, besides the reduction and maintenance of public debt, in the preservation of the country's financial stability, in the reconstruction of economic balance and thus, in the foundation of the conditions of a sustainable economic growth.

Finally, if we examine the case of the Czech Republic, the perspective of the hypothesis indicates that the rate of common public debt, inherited in a two-third proportion in the separation from Slovakia in 1993, was only 19,1% compared to GDP, which was considered as unusually low by every national comparison; what is more, it kept a remarkably moderate rate in the following years as well – by showing a decreasing trend. According to the data by the Czech Ministry of Finance (1996), rates between 1994 and 1996 were the followings in order: 18,1; 16,4; and 13,7 percent. Public debt rate was at a low level until the appearance of actual profit-oriented owners, until the completion of the so-called secondary privatization (until the early 2000s), and also in the following years, so no privatization revenue constraint was placed on the Czech economic policy. The scissors opened wider and wider between tax revenues and primary expenditures in the Czech Republic between 1999 and 2003, as a result of which, the largest country risk was caused by the increasing public debt in the medium term. The rate of the Czech public debt increased almost to its double between 1998 and 2002; by 2009, it reached 35,3%. The structural problems, resulting mainly from the pension system, from the financing of healthcare and from the employment and wage policy of the public sphere, were behind the growth. However, state entrepreneurial assets of high value, that could significantly reduce public debt, were sold by this time; despite of this, the Czech budget basically remained balanced, and public debt could be managed without difficulties.

3. thesis: The social political and economic judgments of privatization – due to various approaches – are significantly different. By examining the purpose, method and consequences of the privatization of the three countries from a social political perspective, they were classified into separate groups. The question of what the specific aim of privatization was, was relevant in the classification, and not the question of by what methodology the national economic policies performed the privatization of their appointed state (public) properties.

The British privatization is tactical from a social political aspect, and the privatization practice of the two transition countries was systemic. Typologically, the denationalization was not
accompanied by a political transition in case of the British; ideologically, it was based on the expectations of so-called conceptual governance. If we look at the objectives of systemic privatization, we can recognize that Czech and Hungarian practices were pointing in the same direction as regards structural changes; so the specific (free and/or cash) method of the state (public) property’s privatization was irrelevant in this relation.

The central element of British privatization was the privatization of the state’s assets, operated at a low efficiency, in a way that it expands the government’s circle of supporters and increases its voter base, besides significant budget incomes. Parallel to these, the weakening of unions being the bases of the left wing was also part of the tactical privatization. The process, which was started and completed by the conservatives and named as denationalization by the British, significantly contributed to the realization of the declared political objective that their political power shall be preserved as long as possible. I also identified by my analysis that the British caused a beneficial situation for four social groups (there might be overlaps among members of the groups) by the performed privatization: employers and managers, those with the highest incomes, those purchasing houses at discount prices and the group of employees purchasing shares at a discount price.

As opposed to the previous one, the privatization of the larger proportion of the two analyzed transition countries’ state assets was systemic because it resulted in the complete transformation of the previous social-economic structure by the ownership transfer performed on an ideological basis, in brief: the purpose was transition with it. The handover of power (control) to the new elite was achieved within this, a new middle class was created and strengthened, and the modification of the society’s approach was moved from state care towards individual responsibility. Institutions were changed in a way that they encourage citizens to rely on the private sphere rather than on the state.

In part 4. of chapter VI., I presented economic- and social-political factors and their changes verifying the systemic nature of Czech and Hungarian privatizations and the realization of their purposes. First, I analyzed the role of privatization in the redistribution of power (control) and assets and in their displacement. Within this framework, I presented how the elites were rearranged, which groups/layers became the beneficiaries/losers of power change, and also what institutions and instruments were applied by the governing political power for the change.

After this, I analyzed the changes of social expectations towards the state (government) and the transformation of the structure of government capacities, which is called as perceptual
shift by the theory of systemic privatization. I identified the previous as the change of the role centralizing and distributing the government incomes, as the transformation of the national budget’s structure, and as the change of the quality of the states’ operation. Finally, I analyzed the process of institutional change, displacement, during which the legal, political and economic responsibility was increasingly taken over by the private sector. I proved by this that social control was replaced from bureaucracy and politics towards the market.

4. thesis: The privatization of state assets of significant amount was suitable for trimmings with the political power attaining the selected groups/layers and their support by the transfer of assets for free and/or at a discount price. But the condition of this was that the given privatization segment could be transformed to political or to become political during privatization.

By taking a look back at chapter VI., in which I analyzed the privatization practices of the three examined countries from a social political aspect, I drew the conclusion that the privatization of the state (public) property is characterized by many traits of trimmings. It is clear from the analysis that the political process of redistributing assets is a typically suitable instrument for trimmings because it could clearly be controlled by politics, the derived political benefits (acquiring votes, building clientele, creating new elites etc.) could be well identified, and the derived financial advantage of beneficiary groups became obvious.

In the privatization of different degrees of the three countries’ state assets, I discover the same theoretical basis. I consider neoliberalism – both in the East and in the West – as the theoretical basis of privatization, which can be described by the deregulated and free market economy, by the clear private ownership that can be identified, by the person with unlimited freedom and being responsible for their fate, and by the minimum state playing only the role of a “night-watchman.” However, the interconnection of neoliberalism as an ideology and privatization as an economic political instrument was manifested differently in the Western and in the Eastern parts of Europe. Privatization, as the capital’s adequate political toolkit, even with its own power-economic structures, could not have performed privatization in Eastern and Central Europe without transition. Contrary to Great Britain, or to any other place in the traditional capital system, where the privatization of state assets, rooted in private ownership, was completed without transition. So state assets, independently from whether they occur within a transition or “only” by tactical privatization (as they occurred in Great Britain), proved to be a suitable instrument, besides earning votes, to achieve political
benefits. I clearly proved the existence of privatization’s trimmings in points 1-4. of chapter VI.; I consider its manifestation in the process of British privatization particularly strong but it was well detectable also in the practices of the other two examined countries.

5. thesis: In case of transition countries, the constraint of self-care necessarily appears during the transformation from the closed society, in the Popper sense, to the open one, which implies the rearrangement, in several cases the decrease, termination of former various state subsidies related to a person or the creation of new ones. In other words, this means that transition enforces a paradigm shift in the economic-welfare transfers of governments.

The particular problem of the two analyzed post-socialist states was how they were going to solve the difficulties of returning from the traditions and remains of the lasting existence of the socialist total state of a single-party system to a civil statehood. It did not seem to be a simple task because a break-away from the socialist statehood’s practice, a return to civil statehood, and, as a result of the change, significant financial and legitimation losses had to be expected. This could be forecasted by knowing that the unsustainability of the welfare supplies’ value and structure, common in the socialism, became obvious. In my opinion, two economic historical events contributed decisively to the realization of this: first, the transformation setback occurring in both countries (although in different periods) and then the preparation for joining the Union that could force the reigning governments even separately to seek new solutions for the tasks of their shaping states and for their financing.

In point 4. of chapter VI., I presented in details, the relations of the two countries’ systemic privatization practices to the process of changing social expectations towards the state, to the structural changes of the national budget, to the reduction of government capacities, and to the changes of the qualities of the two states’ operations. One of the bases of the modification of these was provided by the – forced – decrease of expectations by citizens towards the government. In this relation, it was a grounded expectation by the society that a governance of “better” quality shall emerge as a result of the transition including privatization as well.

For the fulfillment of this, I examined the changes of the national budget’s expenditure structure in details, in relation to both countries. My analysis included the following functional areas: general communal services, the operational expenditures of the state, home defense, public order-public safety, economic functions, environmental protection, home and communal affairs, healthcare, recreation, culture, sport and party affairs, education and finally
social protection. Based on the changes of data between 1995 and 2010, I recognize the occurrence of economic-welfare paradigm shift in both countries, which is confirmed also by the quantitative values of the national budget’s structural changes; changes of these from the transition to 2010 verify this. The previous fact is confirmed – also based on quantitative data – by the decrease of government capacity (state administration) and the increase of the quality of governance as well.

I consider institutions as factors enforcing the change of approach occurring – as the necessary result of transition – in society, particularly the formal ones. I presented the changes of the two most relevant from these, those of the political and the economic, in point 5. of chapter VI., as a criticism of that the broad social care of paternalist socialist states, before the transition, reduced and almost eliminated individual efforts and the responsibility of individuals in shaping their own fates.

By the changes of quantitative values measuring the operation of formal institutions, I proved that a paradigm shift occurred in the social-welfare transfers, in case of both transition countries.

5. The possible direction to further explore the topic

In my opinion, it is practical to keep researching the topic of privatization in relation to national economies, where the proportion of state ownership is still significant and determinative. Primarily, such country is China. The last socialist element in this state is the national ownership of economy. This ownership structure is characterized by huge companies owned by the state and by the public ownership of the entire banking system and lands. The official objective of the state is the establishment of the socialist market economy therefore the use of the term privatization was not permitted in the late 1990s, despite of that such a spontaneous process was taking place dynamically at that time, in fact, by illegal tools. A type of hidden privatization started at state-owned companies at that time but the institute of privatization was made official in the 2000s. A basic economic political deficiency of this process is that companies offered for sale are not reorganized, so their sale either fails or is realized only at a minimal price. A change is likely to occur in this practice, and the dynamization of the state assets’ privatization can also be expected because the maintenance of the level of economic growth, common in the last decades, cannot be imagined without this. The order of Chinese changes shows a particular direction, if we see that economic
changes are in the front in the transformation, besides the control of an authoritarian political regime, while the political circumstances – at least on the surface – almost show no changes. This is right the reverse flow of the Central and Eastern European transition therefore it might provide an opportunity for special comparative analyses.

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<td>Voszka Éva</td>
<td>Állami tulajdonlás – elvi indokok és gyakorlati dilemmák</td>
<td>Közgazdasági Szemle, LII. évf., 2005. január (1–23. o.)</td>
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7. The list of the author’s publications related to the subject of the research

1. Török László: A magyar privatizáció társadalompolitikai perspektívából való elemzése (a Kecskeméti Főiskolán 2013. szeptember 5-én Gazdálkodás és Menedzsment Tudományos Konferencián megtartott előadás anyaga, megjelenés alatt)


5. Török László: Államadósság és privatizáció, Vezetőstudomány 43:(7-8), 2012. 117–126., ISSN: 0133-0179


9. Török László: A Case Study of Privatization without Consideration: The Failure of Voucher Privatization in the Czech Republic, Theory Methodology Practice: Club of Economics in Miskolc 7:(2), 2011. 79–86., Faculty of Economics, ISSN 1589-3413


8. The list of the author’s conference presentations related to the topic of the research


