The privatization of state owned enterprises is one of the main tasks of all governments intending to transform centrally planned economies into a market economy. According to general understanding, shared in all Central East European countries, privatization does not simply mean the transfer of individual firms from state hands to other proprietors, but it is the precondition and the main instrument of rebuilding the whole economic system. Thus, the task is not to fit in state owned enterprises into a functioning market but to create this new integration mechanism parallel with and by the mean of a wide-ranging change of ownership structure.

One of the basic dilemmas of the transformation is, whether it is possible to build up the frameworks of a decentralized market mechanism applying a comprehensive, homogeneous privatization strategy, carried out by centralized governmental institutions. In other words: can privatization be designed?

Based on the Hungarian experience, in comparison with Czech-Slovakia and Poland\(^1\), this paper will argue that all governments have tried to do so. Nevertheless, their attempts to design ownership changes have been successful at a different degree - not (only) in terms of privatized assets or enterprises but in terms of the impact of programs, guidelines and centralized decision making on the transformation of the proprietary structure. The degree of "design" will be characterized by the stability versus shifts of governmental privatization policies and the relationship between the programs declared and the empirical changes.

Ex-socialist countries seemed to apply different approaches at the beginning of privatization processes, in the late 1980s and early 1990s. Experts tried to give typologies at that time based mainly on the first strategies published and the very first steps taken in practice, based on the emerging ownership structure (B. Milanovic, 1990) or different factors like actors targeted, necessary resources to acquire property rights and method of asset valuation (D. Stark, 1991). This paper will suggest a typology concerning the possibilities of designing privatization and taking into account the five year experience: the dynamics of the process.

\(^1\) Czech-Slovakia and Poland were chosen as a comparative base because of the relativeley advanced stage of privatization. Due to reunification, East Germany has very specific preconditions, while transformation processes were blocked by the civic war in most post-Yugoslavian states. Other countries, however, are characterized more by privatization plans than practical changes.
There are obviously several factors explaining diversity in this respect. No doubt, social and political preconditions of the collapse of the old regime, the way in which the new structures emerged and the division of power after free general elections (Comisso, 1991, Bruszt and Stark 1991) plays a significant part in setting the framework of privatization. This paper will concentrate on the "fine structure" of inherited economic preconditions, the differences in preceding economic reforms, and, consequently, in specific characteristics of planned economy as a starting point of transformations.

According to the general assumption, former economic reforms create favorable preconditions for rebuilding the economic system. The hypothesis discussed here asserts: the more the traditional system of planned economy had been eroded before the political turnover, the less the possibility to design the privatization process at governmental level.

To be sure, the weakness of design does not necessary mean that privatization is slower or less efficient in any terms. No unambiguous positive value is attached to the concept of "design". The hypothesis does not indicate either that the tradition of economic reforms is the only factor influencing the process. It is just one of the numerous elements, though integrating a lot of important preconditions.

**Macro economic conditions - privatization strategies**

The environment of the transformation is a deep economic crisis. As tables 1,2 and 3 indicate, production has fallen in all three countries year by year since 1990. Inflation has been two-digit (sometimes three, like in Poland at the beginning) and unemployment has grown from a negligible level to 5-13 per cent. The state budget deficit has been increasing in Hungary and Poland, while external financial equilibrium (with a high starting rate of indebtedness in the two latter) proved to be manageable, by application of different methods in each country. Comparison indicates the relatively superior position of Czech-Slovakia. Nevertheless, all countries have to face shrinking markets, low profitability, more or less instability and unpredictability of the business environment and the scarcity of internal and external financial resources. These factors, some of them due to or brought to light by stabilization efforts, obviously have an unfavorable impact on changing the ownership structure.

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2 The approach reviewed here is close to the term of "path dependency" of D. Stark (1992).
The conditions of privatization are challenging not only because of the economic depression and the complexity of the problem (the systemic change required) but also because of its scope. The traditional form of a planned economy is characterized by the overwhelming role of state ownership. At this point, however, there are some differences between the three countries analyzed here. According to official estimates, the contribution of private sector to GDP at the time of political transformation was 4 per cent in Czech-Slovakia, 13 in Hungary and 29 in Poland (Mihályi 1993). These facts are due to differences in establishing planned economies (agriculture has never been nationalized in Poland) and to varieties in changing the traditional, centralized systems. As well-known, the reform process in Czech-Slovakia was blocked by the intervention of the Soviet army in 1968. Still in the other two countries economic reform, though disrupted by internal struggles and turn backs, had been a characteristic feature of the last decades. One of the main components of the changes was the tolerance of increasing the private sector. In Hungary from the beginning of the 1980s private activities were even encouraged by new legislation.

The other component of the reforms was related to the state sector itself. It concerned first of all the relationship between governmental apparatuses and enterprise management. While mandatory planning survived in Czech-Slovakia, it was loosened significantly in Poland and abolished in Hungary. The essence of these changes was formulated as "increasing enterprise autonomy". Decentralization of the decision making system meant, among other thing, strengthened bargaining positions for (large) enterprises in negotiations with the ministries for financial resources and preferences. Their informal influence was accompanied by formal decentralization, by assigning more and more ownership rights from the governmental level to the firms. The last step of this process was the introduction of self governing enterprise bodies, workers' councils in Poland and the so-called "enterprise councils" in Hungary. Enterprise councils, consisting of the representatives of the employees and the management (and dominated by the latter group), were authorized to determine business strategy and organizational structure, to appoint the chief executive, to make decisions on merger or de-merger, and to form joint ventures and companies involving state property.

Thus, Hungary and Poland were pioneers in eroding the traditional system of the planned economy, tough in somewhat different ways. The breaking up of the hierarchy meant a strong working class and trade unions in Poland, while in Hungary it was rooted and resulted in a kind of

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3 Formal and informal autonomy of enterprise management has increased only after the revolution of 1989 in Czech-Slovakia, when the central planning agency was dismantled and branch ministries significantly weakened (Mejstrik and Burger, 1993).

4 This problem is discussed in detail by Szalai (1989)

5 The anatomy of these organizational changes is summarized by Sárközy (1986)
oligarchic interdependence between central political institutions and enterprise management (Bruszt and Stark 1991, Nagy 1993). Anyway, the economic integration mechanism has collapsed: redistribution had coexisted with market features for decades. The political transformation has not essentially changed this situation.

This is reflected also in the privatization process. Check researchers worked out a nine-element list of "specific circumstances", influencing the shape of privatization process (Capek and Buchtikova, 1993). Two of them concern the new political situation, but the rest (including the size of private sector, the specific alliances in the economy, the strength of different interest groups, the institutional and the general cultural background, the financial situation of state enterprises and that of the public finance, in particular external disequilibrium) can be regarded as consequences of the extension and direction of former economic reforms.

The general features of a planned economy, like the dominance of state ownership, tight central (formal or informal) control over enterprises and their highly concentrated, monopolistic structure, loose connections to Western markets, and the whole syndrome of soft budget constraint (Kornai 1980, 1986), however, resulted in some similar developments. Owing to the challenge of the unprecedented task of privatizing the whole economy (and due to the cultural background of reform economists remaining or becoming influential as advisors and often even as politicians), newly elected governments, influenced by IMF and the Word Bank too, came up with comprehensive privatization strategies. Legal frameworks and new institutions of changing the ownership structure emerged in all countries in the early 1990. The intention to design the process seems to be general. Yet their content and the processes themselves, having started before the political turnover, show specific characteristics in the three countries.

The model of reciprocity - spontaneous privatization

Spontaneous privatization started in Hungary in 1988, under the socialist regime. The basic method was the transformation of factories within large enterprises into individual companies. Their majority share was owned by a "holding" created from the former enterprise center, preserving the form of a state-owned enterprise. (Minority shares were acquired by mainly state owned banks through dept-equity swap and by customers and suppliers, most of them also state enterprises.) In an other version firms contributed a (smaller) part of their assets to the new
companies, also involving foreign investors\(^6\). The third version, often called in Hungary "hidden privatization", meant the transfer of state assets (or at least incomes) from enterprises to new, small companies, founded by managers or strong internal groups of the same firms\(^7\). These latter two forms, in the contrast to the first one, resulted in privatization in the strict sense of the word.

The key actors starring in spontaneous privatization were the managers of state owned enterprises. The state played a rather passive role in this process. The formal precondition of the managers' decision making power was created by the former decentralization of ownership rights. They aimed at maintaining the viability of the firms and preserving managerial positions. In the basic type of transformation top management had to negotiate only with the directors of factories about the details of founding companies, about the allocation of assets and liabilities. Costs or prices were not considered in this process because of the marginal role of external investors. It resulted in, however, organizational decentralization as well as an internal financial pressure towards involving external capital. The holding companies were often forced to find new owners and additional finance (by selling majority shares of one or several companies) in order to avoid bankruptcy. In this phase as well as in the second alternative of establishing joint ventures, prices were already considered without becoming a crucial factor for the managers.

Bargaining about positions and the clearly defined system of mutual favors was agreed upon by symmetrical groups in horizontal relations. According to the categories proposed by Károly Polányi (1976), spontaneous privatization can be described as a process dominated by reciprocity.

There is no systematic information about spontaneous privatization in Czech-Slovakia. Some features of "hidden privatization", like pumping profits from state enterprises to private companies of the management by transfer prices or taking over assets by rental (leasing) contracts that was abolished soon by law. Spontaneous processes seem to be less widespread because of the more centralized system before the political turnover and thus the weaker formal and informal position of enterprise management.

Not surprisingly, however, features similar to the Hungarian developments also occurred in Poland. Criticism of the spontaneous processes was earlier and stronger here than in Hungary, describing it as "nomenclature" or "black cat" privatization (Frydman, Rapaczinski and Earle, 1993, Ludányi 1993). In Poland civil organizations of society, like workers' councils and the Solidarity

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\(^6\) It follows from the nature of spontaneous privatization that exact data for its scope are not available. The number of enterprises concerned is estimated by the Privatization Research Institute at 250 and their assets at 130 billion Forint (Matolcsy 1991). For a summary review of the process, see e.g. Móra (1990), Tóth (1991) and Voszka (1993).

\(^7\) The extension of "informal" or "hidden" privatization is sometimes estimated as large as the official one Kállai (1992). The methods, not transgressing the legal framework include inter alia transfer pricing in favor of the small private companies, thus depleting state assets. These ltd-s the management or internal enterprise groups can also lease enterprise assets at favorable for them conditions, or "simply" extract the useful experience and business contacts from their former employer.
trade union became the main opposition forces against the old regime and they looked at spontaneous privatization as "theft of collective wealth" that should become their property. In Hungary, on the contrary, the transformation of state enterprises into a group of companies could be regarded as an unbroken continuation of the reforms, strengthening enterprise autonomy and managerial positions without real privatization.

Nevertheless, governmental criticism of spontaneous privatization occurred even here in 1989-1990, blaming first of all the non-market nature of transformations (on avoiding publicity and competition, "selling out" and "preservation of power"). The criticism, however, is actually to be explained by the limits of central influence on the process rather than its non-market characteristics. The centralization of decision making power on privatization issues was one of the first actions of the new government after free parliamentary elections. Setting up a central organization of privatization is a common feature of all tree countries: Ministry of Ownership Changes was founded in Poland in 1990, Ministry of National Property Administration and its Privatization in Czech-Slovakia and State Property Agency in Hungary.

**The first attempt at market type model - centralized privatization**

The foundation of ministries or agencies for privatization meant the centralization of decisions concerning ownership changes. The new organizations took over rights from branch ministries everywhere. Besides centralization within the government, this step meant the centralization of decisions from enterprises to state administration in Hungary and Poland, where management-initiated spontaneous privatization had occurred before. In the latter, however, workers' councils reserved the right of veto in any ownership change and it proved to be effective in practice. In Hungary the possibility of enterprise councils to initiate transformation or privatization did not vanish. Nevertheless, above a low value limit, all deals involving state assets have been controlled by the State Property Agency (SPA) since 1990.

The SPA, the key actor in the phase of centralized privatization between summer 1990 and autumn 1991, tried to pursue market criteria as a seller. Sales were based on competitive procedures (auctions, tenders). The main objective was to increase the revenues of the state and to modernize the economy by a "big jump" expected to result in a simultaneous change in the structure of ownership, production and market. The "active" programs initiated centrally (the first and second privatization programs, small privatization or the building industry and wine programs) were aimed at the sale of majority shares. The general intention was to sell the enterprises without
splitting up or restructuring. Consequently, mainly international investors could be taken into account as potential buyers\(^8\). Price was considered as the most important criterion of negotiations.

The "active" programs of centralized privatization proved to be very slow. For example, from the 20 enterprises of the first privatization program four were sold by the end of 1992. Others, at best, were transformed into companies without involving private capital. The second privatization program has never been really started. Small privatization is an exception also in this respect. The sale of more than 300 enterprises involved is about to be completed (though often by selling leasing rights and not assets or shares).

Not only results but degrees of centralization of decisions were limited, too. The SPA, having been unable to control all deals, approved the proposals of the enterprises concerning small assets (but representing the majority of cases) without any considerable revision.

These developments were not unique for Hungary. After setting up ministries of ownership changes, both other countries concerned applied methods of centralized privatization. Small privatization, involving units of retail trade and restaurants was started at an early stage everywhere and has been progressing rather successfully (Table 4.) Apart from this, however, Poland and Czech-Slovakia did not start comprehensive "active" programs but tried to sell firms one by one. A special type of changes occurred in Poland, namely privatization through liquidation. It may be initiated by enterprises or branch ministries, but has to be negotiated with and approved by the Ministry of Ownership Changes. The majority of these cases ended up with employee buy-outs (Ludányi, 1993)\(^9\).

With the exception of this method, privatization by sale has been less extensive than in Hungary. It is partially explained by resistance from foreign investors\(^10\) and designing a mass privatization program in Poland and by starting the voucher privatization in Czech-Slovakia. Hungary, however, turned in another direction at this stage.

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\(^8\) Small privatization was an exception in several respects. These enterprises were separated and sold by outlets and international buyers were formally disqualified.

\(^9\) Privatization through liquidation is possible also in Hungary. In this country, however, it can not be regarded as a centralized method, because the SPA does not have any decision-making rights in these cases. A liquidation process that may end up in privatization, is managed by specialized (private or state owned) consulting firms.

\(^10\) According to the Law on Privatization, passed in 1990, only 10 per cent of the firm's share can be sold to foreigners without special governmental permission.
Due to the poor results of centralized privatization and to the rivalry of different governmental institutions (mainly the Ministry of Finance, accusing the SPA of being inefficient and of becoming too powerful), decentralized privatization was introduced in autumn 1991.

The new method did not become the only model of changing the ownership structure; it was applied parallel with other, already existing techniques. The so called self privatization program involved smaller enterprises in the first round and was extended to larger ones in the second round, launched in Spring 1992. Self privatization means that most of the seller's rights were assigned to consulting firms selected and deemed to be reliable by SPA. These firms become the key actors of the process, being interested in the quickest possible sale for the highest possible price\textsuperscript{11}. Thus, revenue was the main drive of self privatization, just as of the previous approach of centralized sale. Consulting firms, however, received their assignments in the transformation phase from enterprises concerned, therefore they had to consider the requirements set by the management. Because of this and the relatively small size of the enterprises involved, they were sold in most cases without any splitting up or restructuring.

Beside some international participation, most buyers were Hungarians, including a considerable share of employee buy-out. In the latter cases shares are divided between lots of small investors. However the controlling interest is usually concentrated in a few hands. So these cases should be really called MBOs\textsuperscript{12}. The participation of domestic investors in privatization received growing support in this period in financial terms. The preferential credit construction called Existence Loan was introduced in early 1992 and its terms of conditions have been repeatedly improved. The institutions of loan guarantee by the state have been established in early 1993.

Both centralized and decentralized ways of privatization can be regarded as market methods, as they are characterized by sales on competitive bases and price plays an important role in negotiations. Nevertheless, there are considerable limitations of market type characteristics. Sale was based in both cases on competitive bidding (auction) to potential buyers. In the selection of the bids, however, more and more criteria appeared besides the price (such as additional investments or maintaining employment) often even not advertised before tendering. The SPA has been obliged to enter into a contract with the bidder making the best proposal. It is free, however, to evaluate the bids in a trade-off of several conflicting criteria.

\textsuperscript{11} Consultants are chosen from the list of the SPA and the costs of commercialization are paid by the enterprises. Any payment by the SPA to the consultants, however, is conditional on the full or partial privatization of the firms. Fees include a rate adjusted to sales price plus an early completion bonus.

\textsuperscript{12} For an overview of self privatization, see Voszka (1993). Similar results with respect to employee buy-outs have been showed by Boda (1991)
The market characteristics of self privatization are limited by the growing dependence of the consulting firms from the SPA in financial and administrative terms. More and more consultants' contracts depend on central decisions. Consequently, they have to consider the explicit and informal wishes of the SPA. The second important non-market feature was the introduction of a price limit in the second round of the program. Without the permission of the SPA, the sales price must not be less than 80 per cent of the amount calculated by asset evaluation. Due to this limit, privatization deals may be blocked, otherwise the SPA allocates the chance of survival to companies and the opportunity of making money to consultants by individual decisions. These types of decisions obviously belong to the category of redistribution of incomes and positions.

Models of redistribution

Though Hungary was regarded in 1990-1991 by many Western experts as a the country where privatization strategies are dominated by external sale (Milanovic, 1990) and "truly market-conforming methods" (quoted by Mihályi 1993), redistribution appeared not only mixed with mainly market type techniques but also as separate models.

The first steps in this direction were enacted in 1990-1991, allocating assets free of charge partly to institutions (such as churches, local governments or social security founds), and partly to persons once deprived of their property. The preconditions for the extension of redistribution were established by privatization laws passed in summer 1992. Namely, goods must be first collected and the rights of disposition must be centralized before any kind of distribution.

One of the most important new features of the so called "privatization laws" was the creation of the State Holding Company (SHC) to control state owned firms that are not to be fully or partly privatized in the short run. 163 organizations with about 1,500 billion forint in assets were assigned to the SHC. All the other state owned firms are put under the direct control of SPA by compulsory corporatization. This second important feature of the new laws meant the termination of enterprise councils and the reclaiming of a "real" proprietary position by governmental

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13 The SPA organized monthly meetings ("instructions") for experts, where clerks answered questions and presented the actual guidelines. Regulation by circulars or letters was another practice, concerning among others principles of privatization of several sub branches.

14 Compensation involves nearly one million people and about 80 billion forint. According to preliminary data, by the end of 1992 state owned shares were bought for about one billion forint worth of issued compensation notes by the beneficiaries or secondary buyers of the notes. Social security will get state assets in the amount of 300 billion forint; however, the transfer has not been started yet. There are no reliable data on the growing ownership of churches or local governments.

15 Another 62 enterprises remaining in long term state ownership were left under the control of branch ministries, mainly those of agriculture and transport.
institutions. If corporatization is not accompanied by immediate privatization, the majority shareholder of the firms is the SPA. Thus, after centralization of privatization decisions, centralization of all ownership rights has to be completed by mid-1993.

This kind of renationalization means that the rate and method of privatization are entirely at the discretion of the SPA (or the SHC), taking again the leading role in the process. The objectives of privatization have been changed accordingly. The establishment of the SHC has put the emphasis on the asset management and restructuring of state owned firms. Thus, a considerable part of the economy will be controlled by a bureaucratic organization which will be able to influence the distribution of incomes in the entire economy indirectly, by setting the prices and by allocating supply orders. Besides this, a reallocation of profits and assets between the different companies of the SHC may develop and the holding can also redistribute property.

With respect to privatization, a new strategy was adopted by the government at the end of 1992, aimed at creating a strong proprietary middle-class. In addition to the preferential loans and privatization leasing, new instruments of increasing demand for state assets included some kind of free credit vouchers, distributed without any personal investment or collateral. Though the final version of governmental plans and the scope of free distribution have not been published yet, the ideas seem to resemble mass privatization proposals in Poland and Czech-Slovakia.

Similar features of redistribution occurred earlier in these two countries. Restitution and compensation emerged, though in somewhat different forms, in Poland and Czech-Slovakia, too. The attempt of the state to reclaim its ownership role was also a general feature. Like in Hungary, the basic method was corporatization of state enterprises.

In Czech-Slovakia the centralization of ownership rights, like that of decisions on privatization, meant changes mainly at governmental level. The proprietary role of branch ministries were taken over by Funds of National Property (FNP), one for each republic and one for the federation. The funds act as shareholders like their Hungarian counterparts, up till the privatization of the firms.

In contrast to Czech-Slovakia, and similarly to Hungary, corporatization means renationalization in the Polish case, eliminating workers' councils. The Ministry of Ownership Changes becomes the new shareholder of the companies. Not surprisingly, enterprises and workers' councils put up significant resistance. Since they reserved the right of veto even in this respect and

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16 In 1992 the SPA made 40 per cent more decisions covering twice as many assets than in the year before. More than half of these decisions meant corporatization and in terms of assets concerned, corporatization represented a share of nearly 97 per cent (Table 5). The average share held by the SPA is as high as 75 per cent (Table 6).

17 For more details see Mihályi (1993) and Earle, (1992)

18 For more details see Earle (1992)
unlike in Hungary, compulsory corporatization is not enacted, the process seems to be rather slow here (Ludányi 1993).

This is true not only of the transformation of state enterprises into company form, but for the whole privatization process. Due to political compromises, the Polish privatization law, passed as early as 1990, listed all possible methods and final ownership structures, without clear priorities to one or another (Blaszczyk and Dabrowski, 1993). Governments, however, worked out a comprehensive mass privatization program, intending to (partially) privatize several hundred large commercialized enterprises through free distribution of vouchers among the citizens. Although more than 180 firms were selected for the first wave of mass privatization up till mid-1992 (Earle, 1992), the program was rejected by Parliament early in 1993\(^\text{19}\). The obvious reason is the political weakness of the government and the strength of the proponents of internal (employee) buy outs, routed in the inherited ideas and aspirations of the Solidarity Union and workers' councils. Yet, according to the draft bill, the owners would have been outsiders, namely closed-end investments funds. Vouchers could have been used for purchasing the shares of these intermediaries and not the shares of the firms directly.

The Czech-Slovakian voucher program is more successful in terms of enacting and at least starting mass privatization. According to the original method of computerized public offering, individuals bid for shares with voucher points of 1,492 firms with a total book value of 568 billion crowns (Earle 1992). The voucher points are not transferable and bids have to be repeated until a satisfactory level of supply-demand equilibrium is achieved. Thus, the method applied solved the crucial problem of asset valuation by bidding and complemented redistribution with market type mechanisms. Citizens were supposed to acquire the shares of the firms involved in the program directly. Due to the low level of interest at the beginning, government encouraged the establishment of investment funds. More than 400 intermediaries were founded, most of the largest ones by state owned banks. Intermediaries control two-third of all investment points and the top ten of them control 40 per cent of the points (Mejstrik and Burger, 1993).

The progress in Czech-Slovakian mass privatization is partially due to the strength of the government and to the weak opposition of the firms concerned. At the early stage of formulation of privatization policy, open debates occurred even here between "gradualists" and "radicals". The latter group suggested voucher privatization with the main goal of rapid transformation and they have been in the controlling position of policy issues since 1990. On the other side, enterprise management often tried to resist changes at the beginning, mainly by refusing to deliver

\(^{19}\) As a compromise between different political forces, the proposal was passed by the Polish Parliament in mid-1993.
information to state administration. Shortly, these attempts become legally punishable and thus eliminated in practice (Mejstrik and Burger, 1993). The weakness of the resistance is due to inherited economic mechanisms. Since the reform process, the enterprise autonomy and initial private sector have been relatively weak here, thus strong interests against the governmental proposal have not occurred\(^ {20}\). In addition, voucher privatization promised an ownership position (though not a very stable one) for wide circles of the population.

Nevertheless, we must not forget that contrary to the main goal of voucher privatization, speeding up the transformation, the process is rather slow. After more than three years of efforts, only the first wave has been started and it has resulted in changing the ownership structure of about one hundred firms (Table 4). Because of this, there is no evidence yet on the performance of the new proprietors. Besides this, voucher privatization is only one part of a large privatization process even in this country\(^ {21}\). Moreover, after the establishment of two independent states both new governments seem to revise privatization policies, turning to standard methods of ownership changes (Mejstrik, 1993, Schmöglerová, 1993).

**Similarities and differences**

At the beginning of the 1990s, it was a well-founded statement of several experts to give a classification where Czech-Slovakia, Hungary and Poland represented different types of privatization in terms of preferences concerning targeted actors, resources required or valuation of the assets. As the developments of the last years indicate, however, there are more similarities than expected at the beginning and initial strategies proved to be more or less unstable.

Similarities include the institutional system. Central governmental organizations were set up for privatization and/or for state asset management in all three countries. Centralization of decision-making rights of ownership changes was followed by the attempt to recentralize all ownership rights. The intention of the state to reclaim its firm proprietary position has also been a general characteristic. Renationalization has appeared in the form of corporatization, eliminating the formal influence of branch ministries and bodies of enterprise self-governance. The institutional system

\(^{20}\) This situation does not mean, however, that enterprise management has no influence on the process. They can exercise a certain degree of control by elaborating privatization proposal. If their plans are chosen from the competing proposals by the ministries, the process may end up with management buy-outs or buy-ins (Mejstrik and Burger, 1993, Schmöglerová, 1993).

\(^{21}\) This fact is emphasized by experts as "little understood in the West" (Earle 1992). The share of voucher privatization in approved privatization projects is only 38 per cent in terms of business units and 49 per cent in terms of assets involved (Mejstrik and Burger, 1993). Moreover, according to the paper quoted, the resolution of the country in two republics and the progress in voucher privatization may lead to some changes in privatization policies. The Czech Ministry of Privatization, for instance, intends to give more space to "standard privatization methods", i.e. selling.
reflected the desire of all governments to design the privatization process and, on the other hand, reestablished the traditional bureaucratic attitudes and decision-making mechanisms of the new organizations.

There are some other methods similarly applied everywhere, like restitution or compensation for several groups of individuals and free assignment of state assets to institutional owners (local governments, social security, churches). Small privatization concerning retail trade and some service sectors was started early and progressed relatively quickly everywhere.

Similarities in some methods indicate that ways of privatization in all three countries are mixed. There is no homogeneous procedure for changing the ownership structure in any country. The process is divided according to economic sectors, targeted groups and it is shifting from time to time.

The dynamic aspect of this statement is less valid for Czech-Slovakia, where the voucher program, though not an exclusive technique, is the main and relatively stable method for large firms privatization. The governmental design has been the most successful here, at least for the implementation of the procedure. (Results remain to be seen.) We have argued that this is at least partially due to the lack of former reforms. In the two reform-socialist countries, on the contrary, interests and politically influential groups were more divided, having got into a stronger bargaining position.

Even at the beginning, Poland sketched privatization as a mixed process, opening possibilities for all techniques and potential proprietary groups. The attempts of the government to recentralize decisions and to reclaim ownership rights have faced the strongest opposition in this country. Workers' organizations and enterprise managers preserved formal rights of agreement and informal influence on commercialization and privatization. Thus, the Ministry of Ownership Changes has limited powers, and a central institution for state asset management, concentrating controlling functions elsewhere, was not set up here. Counter interests slowed down transformation. Emphasis of governmental plans turned from preferring internal (employees) ownership, enacted in the privatization law of 1990 to direct sale and later on to redistributive institutional privatization in a kind of voucher program. These shifts in projects did not have a significant impact on real processes.

Hungary seems to fall between the two extremes regarding the implementation of designs and the stability of the processes. The Hungarian government proved to be more successful in recentralization and renationalization than its Polish counterpart, at least from the formal-legal point of view. The real controlling power of the State Property Agency, however, has remained rather limited in privatization deals and its role as asset manager for temporary state owned firms
seems to be even weaker. Without a comprehensive law on privatization at the beginning, the government pledged itself to sales on competitive basis. Yet parallel with centralization of all proprietary rights, even Hungary turned into the direction of (semi-) free distribution methods. The mixed and unstable framework of privatization, in contrary to the Polish case, resulted not in paralyzing the transformation but to make it more flexible. The social structure and "business" culture in Hungary is traditionally bargaining oriented. The actors in privatization process have the social experience that all laws can be evaded and rules negotiated. This situation did not change after the political transformation, thus all players can try to enforce their interests with a good chance for success, whatever the official rules of the game are. In contrast, Poland has the tradition of open and sharp social confrontations, hindering it from following the Hungarian path of hidden compromises and negotiations, thus stalling transformation in several respects.

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In formerly communist countries of Eastern and Central Europe, conversion to a market-based economy, with privately owned and operated businesses, has resulted in massive privatization programs. There are multiple benefits of such privatization, including the following eight. Under reforms designed to facilitate domestic and foreign investment, the Mexican government amended the constitution in 1992 to allow for sale, rental, or lease of the ejido properties. This privatization is good for investors who need land for industrial projects or large-scale farming.

“Privatization in East Europe: Another Case of Words that Succeed and Policies that Fail?” Transnational Law and Contemporary Problems 2 (1995): 1-20. Schaffer, Richard, Beverly Earle, and Filiberto Agusti. Where have privatization efforts—particularly those in Central and Eastern Europe and the former Soviet Union—succeeded, where have they failed, and how can these countries best pursue further privatization? Privatization appears to have swept the field and won the day. More than a hundred countries, on every continent, have privatized an estimated 75,000 state-owned companies. It is time to rethink privatization, but only in those transition countries where history, geography, and politics have resulted in seemingly laudable economic policies producing clearly suboptimal outcomes. In Russia and elsewhere, too much was expected of privatization. But admissions of error should not be overdone. In all of Eastern Europe, privatization has become a key element of the transition from plan to market, constituting one of the five fundamental pillars of the political and economic reform process: (i) price reform; (ii) trade reform; (iii) fiscal and monetary reform; (iv) institution building; (v) privatization.

2. Privatization: General Problems and Trade-offs. It is a commonly accepted view that market economies can only operate efficiently if they are based upon private property rights. Fiscal reform has to be accompanied by the creation of a central bank that is not required to continuously finance government deficits and that enjoys a high degree of political independence. (f) Successful privatization requires the rapid development of domestic financial markets.