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RESTRUCTURING OF LARGE STATE OWNED ENTERPRISES IN HUNGARY 1988-1993

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1. DEFINITION AND KEY ISSUES

The restructuring of state owned enterprises (SOEs) can be considered as a process in which firms created under and geared to planned economy are enabled of successful operation in a market economy - or, alternatively, as a process of adaptation of firms to the new environment. In this sense the whole transformation process in East-Central Europe can be regarded as restructuring. The term can be defined to cover any corporate or state action whereby the old economic conditions are revised, including the change of ownership and organizational systems and even the establishment of a competitive environment.

Since this broad interpretation of restructuring may make operationalization difficult, this paper will use a more limited definition. Restructuring is defined in this paper as a series of specific actions, aimed at the survival of firms and rescue them from liquidation. In this context, categories of direct state actions, corporate actions or actions implemented through intermediaries will be distinguished, according to the level of decisions and sources of financing. Restructuring will be further classified according to methods, such as organizational or financial, and according to timing, such as before, parallel with or after privatization.

Along these dimensions the most critical dilemmas of restructuring can be outlined. The first question is if restructuring can be or should be implemented before privatization or if it should be rather left to the new owners. The second dilemma concerns the question: who should be responsible and pay for restructuring. Is it sure that these measures have to be taken by the state and if yes, which bodies of the state: the government, the state owned lenders, the organizations representing the state as a shareholder, or any specific restructuring departments? Alternatively, is it possible to establish an environment where the SOEs themselves are willing and able to implement the restructuring process?

These are increasingly pivotal issues of political and professional debates in Hungary. The official approach and the practice of restructuring were modified several times in the last five years. The initial bottom-up approach was replaced by centrally controlled privatization when restructuring was overshadowed and finally by centrally controlled restructuring. The analysis of these three periods renders the comparison of terms, methods and consequences of the different approaches.

Following a brief review of the starting conditions, the paper will present the methods according to the different phases of privatization policy. In this context, will be described the motivations and methods of organizational and financial restructuring. The last section offers a summary of the pros and cons of the different types of restructuring together with some conclusions derived from the analysis.

2. PRECONDITIONS OF TRANSFORMATION - FROM THE RESTRUCTURING POINT OF VIEW

(i) The necessity and the possibility of restructuring in the late 1980s

One of the important groups of starting conditions concerns the high degree of organizational centralization of state owned enterprises. Following the mergers launched as from the 1960s upon central initiative and subsequently upon the initiatives of the large organizations created in this process, a highly centralized structure was established (see Table 1). This degree of centralization was quite unique even in the planned economies. A growing share of SOEs (about the half of the industrial firms in the 1980s) had more than 1,000 employees. A "reversed pyramid was built with an overweight of large organizations and a shortage of small and medium size organizations" (Schweitzer 1982, p. 130). Centralization often amounted to monopolistic positions. According to a review of the Institute of Economic Planning covering 458 product categories, the leading manufacturers accounted for more than 50 per cent of the market in two-thirds of these products (Bertáné, Bod and Nagy, 1990).

Conglomerates were not typical in the Hungarian economy in the last decades. The last organizations of this type, called trusts in Hungary, were terminated as almost the only result of a splitting-up campaign started in the early eighties. Most large organizations, however, did not form any homogeneous, integrated enterprise. Most plants and factories of the large SOEs, merged administratively, remained geographically and technologically separate units. They kept fighting with the enterprise centers, first for the preservation of their relative independence and decision making rights and from the eighties onwards for separation and organizational autonomy.

In the negotiations with third parties, including the government, however, the large SOEs acted as integrated organizations. Their bargaining powers were based mainly on scales (volume of production, export and staff). In this position and through their integration into the political system, they were able to achieve income redistribution in their own favor.

The wide-spread redistribution was the second important group of starting conditions. Most large SOEs were used to regular budgetary subsidies to cover the losses or maintain exports. (The amounts of these subsidies are shown in Table 2.) Investment funds were allocated in a predominantly central system through yearly and five-year plans and lending policy guidelines. This system preferred the large organizations irrespectively of the credit risk, thus increasing their indebtedness.

Last but not least, in addition to political intentions the strong negotiating positions of large SOEs contributed an important drive to the relatively long and intense reform process. The basic idea of Hungarian reforms beginning from the 1960s has always been the increase of the enterprises' independence. This process meant, among others, the decentralization of an increasing part of property rights from central bureaucratic organizations (ministries) to enterprise management. The inheritance of the former political system in this respect was not a strong and stable state ownership, but a dispersed model where the property rights were divided among different organizations _.

The last step towards the decentralization of state property rights was the introduction of the so-called self governing enterprise form in 1985. Enterprise councils were established for two-thirds of the economic units. These bodies, which were in practice dominated by enterprise management, received the right to determine the organizational structure, appoint the managing director, make decisions on mergers and splitting ups, and on the establishment of joint ventures and companies involving state property.

The establishment of companies could be executed according to the laws made before 1945. In 1988 the Company Law was passed _, giving new legal frameworks for founding corporations. This law did not provide special rules for transformation of state enterprises into company form (corporatization). This need was met by the so-called transformation law in 1989, declaring that the decision is the right of self-governing bodies, but corporatization became the subject to several

conditions (raising of capital, entry of new, external owners) and the non privatized shares are due to the organization of state property administration as owner.

The need of restructuring is indicated by two of the starting conditions, by the high centralization of the organization system and by the high levels of subsidies and enterprise debts. The third condition mentioned above, namely, the considerable formal and informal autonomy of large SOEs, provided the possibility for them to act as initiators in the transformation. Before the analysis of this process, the scale of changes will be reviewed in the light of statistical data.

(ii) Changing features of the organizational structure

The growth in number of market actors is one of the most dynamic processes of the Hungarian transition. By the end of 1993, the number of business organizations exceeded 800 thousand (Table 3). Among them individual entrepreneurs and (small) business without legal entity represent a numerical majority but only a smaller share in terms of business performance. (While employment in these sectors increased from 300,000 in 1988 to over 700,000 in 1992, according to the data of the Labor Research Institute (1993) at the end of the period this only accounted for 16,7 per cent of active earners.)

From the point of view of organizational changes of SOEs, firms with legal entities represent the most relevant group, because the successors (both the private and the state owned ones) of the large units fall in this category. The number of organizations with legal entities increased by eight times between 1988 and autumn 1993. The extension of the group was accompanied by structural change, the proliferation of small firms and company forms. The rate of organizations with less than 20 employees increased from 18 per cent in 1988 to 80 per cent in 1993 (Table 4). It has to be mentioned, however, that employment concentration is considerably higher. In 1991, the last year when there are comprehensive data for this feature, the share of industrial firms with more than 1,000 people was 1.6 per cent, but they employed nearly the half of the workforce (see Tables 1 and 5). The share of companies and limited liability companies grew from 8.8 per cent to 87.7 per cent between 1988 and 1993 (Table 6). Most of the small firms in ltd. form presumably belong to the private sector emerging on its basis, that is, they were established independently from privatization of state owned assets.

Statistical data are not available to define the exact share of these two categories. According to an estimate for a previous period, among companies state owned assets were involved in some 6500 organizations (Voszka, 1993).

Thus, the "reversed pyramid" of the enterprise size structure was clearly removed in the last half decade. The establishment of small and medium size entrepreneurs also reflects the disintegration of big state owned enterprises. Spontaneous privatization was a crucial factor in this process.

3. "SPONTANEOUS PRIVATIZATION 1988-1990: A BOTTOM-UP APPROACH OF RESTRUCTURING

The main characteristic of the process called "spontaneous privatization" in Hungary was the attempt of organizational and financial restructuring of large SOEs, rather than ownership change and especially the promotion of former managers into the position of owners. The process started in 1988, in the last two years of the old political regime. In one version of the process, firms contributed a (smaller) part of their assets to the new companies, also involving foreign investors, and the remaining state enterprise continued to operate. The basic form of "spontaneous privatization" was the "quasi-entire" transformation of large SOEs into a group of companies.

Enterprises founded companies out of each of their factories, plants and even administrative departments one by one. The former enterprise center took on the function of asset (stock) management. Although they called themselves holding companies, they preserved the form of a state owned enterprise.

It were these "holdings" that usually held the majority of shares in the new companies. In this type of company, new owners appeared as well. Apart from foreign investors these were state owned organizations: banks and other enterprises, mainly business partners. Thus in most cases "spontaneous privatization" did not mean privatization in the strict sense of the word, i.e., private investors rarely bought shares in the new companies. Any MBO form was still more hard to find in this period. It is true, however, that managers like anybody else were free to establish their own private firm. These firms often drew profits from setting up relations with the state enterprise as suppliers or customers, i.e. managers could pump revenue in their own business. This process called "hidden" privatization should be distinguished from the formal/legal form of spontaneous privatization _.

The transformation into a group of companies was directly motivated by the changing economic and political environment. The main problem for the firms in the late eighties was insolvency or the lack of additional capital. This was mainly due to the restrictive economic policy, the cutback of budgetary subsidies (see Table 2). The traditional methods of survival, such as exercising pressure for more preferences, canceling or re-scheduling debts did not work any more. The state became weak both financially and politically in a period when a large group of enterprises found itself in a critical situation, as the internal and external markets (first of all the Comecon markets) began to shrink, inflation and lending rates increased dramatically and inter-enterprise debts were cumulating.

In the case of enterprises in an unstable financial position, corporatization offered the advantage of a debt to equity swap with banks or other lenders and creditors. Another method of easing the financial burdens was assigning all debts to the "holdings". Even if they go bankrupt, their spin-off companies founded without debts may survive.

The second type of motivations typical not only of units on the verge of bankruptcy is to meet the old desire of the plants to go independent. Plants and factories loosely integrated into the large unit did not abandon their traditional efforts to achieve organizational autonomy. In the process of transformation into a group of companies, it was the bargaining between the enterprise center and the factories that determined the organizational frameworks, the distribution of assets and liabilities. (Workers organizations and local authorities played a marginal role in these deals _.) The formal independence of the sub-units, i.e., the legal entity in the form of a company, was acceptable to the enterprise centers at this time because of the lack of resources for redistribution and because of an increasing need to find new markets and to change the production structure. They already had the experience that delegation of decision-making rights to internal units provides more incentives and flexibility. Yet, by maintaining majority ownership of the former enterprise center in the companies, the features of a large enterprise might also be kept. Moreover, as its previous administrative entity was replaced by legitimate owners rights, this unity has become more difficult to attack either from inside or from outside.

In fact, that was the third important motivation, protection against external, governmental intervention. Such intervention might result, for instance, in transfer under state control (the suspending of the self-governing bodies), in the splitting up of the enterprise or in privatization initiated by state administrative bodies. The company form seemed to fend against most of these threats by creating shareholders other than any governmental organization.

These motivations and the typical solutions could be clearly observed at the shipyard company, Ganz Danubius (Voszka, 1994). The firm employing several thousand people was permanently one of the top 100 Hungarian companies, ranking No. 40 in production value and 14th in export volume in 1988. In 1985-86, total debts including medium-term and short-term loans

taken to finance its swollen inventories and span its cash-flow problems, were more than the values of its assets. As one of the first cases, on January 1, 1989, Ganz Danubius divided itself into seven share companies, forming independent legal entities from all former factories. The HQ which employed a staff of nearly 700 people was transformed into small limited liability companies organized on the basis of the former functional departments (e.g. trade and marketing, accounting or social services). One part of it continued to operate as a state-owned enterprise employing 50 persons. This "holding", led by the CEO of the former large enterprise, owned 89 to 99 per cent of the shares of the seven shipyard companies.

With respect to debt management, neither additional external funds nor dividends from the companies could be reasonably expected. Debt-equity swap seemed to be the only alternative. The deal was actually struck with the key lender, the State Development Institute and with other state owned commercial banks. After the swap of 1989, the holding company lost its majority ownership in four companies and its share fell below 75 percent in the other three.

The second main element of the strategy of the holding consisted of the sale of one of the companies. The income from this deal was supposed to cover the remaining debts, to provide GD companies with some fresh capital and to invest the rest of the money into other, more profitable activities outside of the former large enterprise.

The firm chosen for sale was located on one of the most valuable properties of the capital. The top management of the holding carried successful negotiations with a Danish investment trust contemplating to remove traditional ship-building and implement tourist establishments on the island. The deal was not completed in the period of spontaneous privatization - so it had not been completed up till now.

Thus, "spontaneous privatization" can be interpreted as a compromise between the state and the top management of large enterprises, and between the latter and the factories. Both the state and the large enterprise centers were weakened in their bargaining position with their subordinates, due to the lack of resources to be redistributed. In addition to this, the political background of the government and the large state enterprises was undermined by that time (Szalai, 1992).

In such a situation, the government understood that opening possibilities for firms to change their organizational and financial structure could well be of advantage to the state as well. So it was the state as a regulatory that gave incentives - and at the same time legal options - to its enterprises to choose this way. While in the short run it can help the enterprise to survive (without restructuring from the state level), it spares central resources and provides a potential chance for changing the economic structure. From the point of view of top managers, this opportunity could be perceived as a last gift from a politically weak and financially strapped government to the state-owned firms. It meant the final stage of decentralization of proprietary rights from governmental to enterprise level. The managers of the "holdings" and those of "normal" firms with majority ownership in several companies, extended their decision-making scope to the buying and selling of stocks and assets. Parallel with that, the former rights of the enterprise centers were obtained by the managers of the factories, that is, of the new companies. Their decision-making power has thus been extended. So decentralization affected a wider and wider circle of managers, who strengthened their "quasi-owner" role characteristic for the reformed planned economies. Without privatization in the strict sense of the term, however, they did not achieve the position of a legal owner. As directors of the state owned "holdings" or enterprises, they could be discharged by enterprise councils or government bodies at any time.

To sum up, the establishment of companies with state assets meant some kind of financial restructuring (mainly by eliminating old debts and, less significantly, involving additional capital). The process led to organizational restructuring, too, although in a limited sense. As long as the majority of the shares was held by the state "holding" (the former enterprise center), organizational decentralization remained a formal exercise. The involvement of new owners, however, turned the process into real decentralization. Thus, the hardening of the budget constraint was more the

precondition to than the consequence of enterprise restructuring. Under the new circumstances, as a compromise, managers of both large enterprises and their factories became willing and able to start the restructuring process.

"Spontaneous privatization" was criticized in 1989 by some opposition parties and reform economists, as well as by civil servants because of the lack of public (state) control and that of any income from the transactions paid to the state budget. As one of the last measures of the old regime, a law on protecting state assets was passed and a central organization, the State Property Agency (SPA) was set up to control corporatization and privatization deals. This was the starting point for the new government to change the decision making mechanisms after the parliamentary elections of March 1990.

4. CENTRALIZED PRIVATIZATION 1990-1992 - WITHOUT SIGNIFICANT RESTRUCTURING

One of its first measures of the newly elected government strengthened the protection of state assets and centralized the selling decisions through extending the powers of the State Property Agency. The new laws prescribed for enterprises the obligation to report to the SPA any intention related to taking property into companies or selling or leasing it (above a low value limit). The SPA could specify repeated assessments, require competitive bidding of buyers or disapprove the contract. SPA had the right to take enterprises under direct state control. This step meant the removal of the self governing bodies (enterprise councils) of the firm concerned and resulted in the centralization of all ownership rights on governmental level.

In the years 1990-1991, the economic policy was based on tight monetary and fiscal policy. The government intended to sell quickly the state owned enterprises through central privatization programs, without any prior financial improvement (Government of the Republic of Hungary, 1990). In other words, according to the basic assumption of this period, privatization was to be the very tool of restructuring: the state has the responsibility to sell these firms as they are (including debts) and leave it to the new private owners to transform them as necessary. The extension of the powers of SPA resulted in blocking the earlier spontaneous processes including restructuring initiated by the SOEs.

The shipyard company mentioned in section 3 is a good example for this kind of failure. According to the actual legislation, the draft agreement on selling the company on the island was submitted to the SPA in August 1990. The Agency agreed that the area should not be used for industrial purposes and a foreign investor should be involved. Nevertheless, the holding was taken under direct state control and the CEO was fired.

The new commissioner, appointed by the SPA came up with a new proposal regarding the island: first to build the infrastructure then to sell the land in pieces. The factory on the island was closed down, but in lack of state and local government resources, no restructuring has started yet.

The maintenance of the credit burdens and the lack of additional capital resulted soon in serious problems at other GD companies, too. Four of the seven firms recorded losses in 1990. In 1991, all GD manufacturers were losing and the total amount of losses was more than HUF 800 M. By summer 1992, four GD companies were bankrupt or liquidated.

Enterprises not having been put under SPA control, however, could proceed with some restructuring. The method of forming companies from departments and business units other than the core business of the firm was still widely used. It was also typical to divest properties and shares to maintain liquidity. These steps (above a low limit) required the approval of the SPA, however, this approval was not difficult to obtain. According to the report of State Audit Office on the first year of SPA (1992), 85 per cent of the 140 so-called asset protection cases submitted by companies (usually concerning limited shares contributed to new companies or divested) were

approved without any change. This means that the SPA could not effectively control these restructuring steps and the relevant activities of SPA were typically limited to issuing the permits as a formal requirement.

In the centrally initiated privatization programs, restructuring was only characteristic for the small privatization of retail and catering. The 366 SOEs covered by this program were offered to sale divided into more than ten thousand outlets.

The transformation of organization structure was also encouraged by the government in other sectors. Till the end of 1991, the so-called separation law made it possible for the factories to appoint the founding ministry as arbitrator if the enterprise council of the SOE concerned refused their request for separation.

In the cases, when a firm could not agree about transforming into a group of companies, the self-governing bodies usually continued to reject the split-up proposals the plants and factories, because the large SOE did not receive any compensation for shrinking its organization. Moreover, most requests for separation were made by profitable business units and the big organization could be put in a critical position by their splitting up.

The separation law gave some impetus to the decentralization of organization structure. 118 requests for splitting up were submitted to the Ministry of Industry and Trade _ till the end of 1991. The ministry rejected only a few proposals, quoting that the new or "leftover" organization would not be viable. 70 per cent of the cases were successfully concluded with separation: 81 new SOEs were founded. Most of the SOEs concerned belonged to the medium size group, not to the largest one. Agricultural machine production, textile and building industry were the typical crystallization points of this kind of splitting up.

The separation law opened the way for a traditional requirement of bottom-up organizational decentralization. It should be considered in the evaluation of the actions of the government that there were intensive discussions in Hungary about the need and method of splitting up already since the early 1980s. While it was generally agreed that the organizational system was overcentralized, most analysts argued that the large SOEs should not be disintegrated by administrative methods. The state bureaucracy is not well placed to assess technical efficiency or the effects of splitting up on business. (This view was also supported by the failure of the aforesaid central decentralization campaign launched in the early 1980s.)

This generally accepted view was reflected in the competition law passed in 1990. This law includes every tool of competition control used in market economies, such as no abuse of dominating position, no cartel agreements and acquisition control. The philosophy of this law concentrates on behavior rather than on the organizations. Adopting the European (mainly the German) model, it sanctions abuse and not the development of any dominating/monopoly position. Thus, the law does not cover any revision of the existing organizational system.

In the discussions of the draft bill it was proposed that Competition Office should check all organizations to be transformed into company form or privatized from the point of view of dominating or monopolistic position and initiate the splitting up, according to the criteria specified by law (higher than 30 per cent market share, higher than 10 billion HUF sales or acquisition of majority vote by one shareholder).

This formal linking of splitting ups and privatization, however, was not implemented. While the requirement of encouraging competition is generally noted in privatization strategies and guidelines of the government, this is just one of the many objectives of privatization. Tamás Sárközy, a key actor of economic legislation said (1991.a): "In the privatization process, too, efforts should be and can be made to decentralize organizations with unreasonable competitive powers. For the time being this is not addressed adequately by the existing laws and regulations."

Without any coercive law, the SPA was disinterested in taking decisions to support separations. The SPA apparatus did not have the experience or sufficient information to make such decisions concerning the micro level. Splitting up is a time and labor consuming task, thus

conflicting with the requirements of fast privatization. The SPA was also afraid that after "cherry picking" of the best business units it will be impossible to maintain or sell the remaining ones. It also seemed to be difficult to allocate the debts of the companies or to safeguard the interests of creditors. Finally, the predominant at that time foreign buyers also insisted on buying large organizations and were willing to pay higher prices for substantial market shares. Under such circumstances, the option of sale SOEs by separate units and consulting the competition office was rarely considered.

Rare exceptions included the case of the Oxygen and Dissouse Gas Works. This organization enjoying a sound monopoly on the Hungarian market comprised five functionally separate but vertically superposed factories. "Nobody wanted to buy ODGW piece by piece. On the other hand the assessed worth of two billion HUF of the whole organization could be raised to 4,5 bn. The buyer paid for the market share", a competent expert said. In the similar case of the Herbal Oil and Detergent Works, the interested multinational firm insisted on buying the whole organization although five of its six factories were loss makers.

According to the general practice, efforts were made to sell the state firms as a whole; moreover, substantial shares in more than one SOEs of certain sectors were sold to the same buyers. Well known examples include several networks of the retail sector in Budapest, as well as the glass and sugar industry. In some cases, as in cement production, however, it was realized only after the SPA decision that the buyers, making their offers under different names represent the same group of investors.

Thus, centrally controlled privatization has led to maintaining and often increasing the degree of organizational centralization. Partly for this reason but mainly because of the slowness of finding private owners, centralized approach of privatization and the excessive powers of the SPA were criticized after 1991 even by MPs of the coalition parties and by certain groups of the government (especially the Ministry of Finance). Consequently, centralization was slightly relieved and SPA started the so-called self privatization program covering smaller companies. At the same time, the general revision of privatization policy, including restructuring, also started.

5. RESTRUCTURING IN 1992-1993: A TOP-DOWN APPROACH

(i) The motivations of restructuring

One of the starting points of revising the approach of restructuring was the modification of privatization policy. This modification meant enacting of comprehensive laws and regulations on the one hand and the change of priorities on the other.

The most important new features of the so-called privatization laws was the creation of 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 HUF 1,500 bn. assets were assigned to SHC. All 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 reclaim of "real" proprietary position by governmental institutions. If corporatization is not accompanied by immediate privatization, the shareholder of the firms is the SPA. Thus, after centralization of privatization decisions, centralization of all ownership rights was enacted. The process has to be completed by the end of 1993.

The objectives of privatization have been changed accordingly. The establishment of SHC has put the emphasis on the asset management and restructuring of state owned firms. The other sign of revising privatization policies was the adaptation of a new privatization strategy at the end of 1992 (Privatization Strategy Task Team 1992). According to this document, the main goal of

privatization is the creation of a wide, strong Hungarian proprietary middle-class. The new policy requires modification of both the demand and supply side. The proposed instruments of increasing domestic demand for state assets include preferential loans, ESOP and privatization leasing constructions as well as the so-called credit notes. Adequate supply structure is to be created by organizational restructuring: splitting up large units.

The pressure for financial restructuring is also partly due to the spreading of distributional methods in privatization. The application of compensation notes in buying state assets and the problems of giving 300 bn. HUF worth of assets to the social security acutely revealed the inability of most SOEs to profitable operation. It was unlikely to present any profitable offer against the credit notes, too.

The other motivation of top-down restructuring was the more and more critical financial position of the enterprises. According to the estimate of the Ministry of Industry and Trade (1993), in the first six months of 1991 industrial loss reached the full loss of the year before and 40 per cent of the firms were loss making. In this period problems appeared first of all in regional context. In several counties (especially in Northern and Eastern Hungary) where socialist industrial policies created dependence on a single economic activity, like mining and iron and steel production, many large SOEs were on the verge of liquidation. In some counties the unemployment rate increased to 15-20 per cent already in 1991 and 1992 which was then the double of the national average (Labor Research Institute, 1993).

This situation became even more threatening after the introduction of the new bankruptcy law on January 1, 1992. The previous regulation on bankruptcies was almost inoperative. Creditors were usually disinterested in starting any liquidation process because it was unlikely that they can get back their money. The most important amendment of the new law mandated filing of bankruptcy for firms over 90 days delinquency. Creditors and debtors have the legal possibility to reach an agreement during both bankruptcy and liquidation proceedings.

This option itself is a tool of restructuring as it may mean the partial canceling, rescheduling or swapping of debts to equity. Till August 1993, there were more than five thousand bankruptcy cases and more than fifteen thousand liquidation cases (Lamberger, 1993). It is clear from Table 7 that, due to the excessive work load of the jurisdiction, only a part of these cases were filed, that is, actually started (4,000 each of bankruptcy and liquidation proceedings). About a quarter of the filed bankruptcies ended up with agreements with creditors, including state owned commercial banks and other state or central institutions (tax office, customs, social security). Thus, restructuring processes implemented (or at least commenced) via bankruptcy partly amounted to agreements within the business sector and partly with the direct or indirect involvement of the state.

It was a concern of the government, however - turning out to be a reasonable - that these steps may not be sufficient to manage the large-scale crisis situations. According to the changing approach, the government cannot withdraw from its own property, in other words, ministries afford to keep away from operative problems. At the same time the drafting of a comprehensive and detailed industrial policy was started proposing underwriting by the state, interest rate discounts, canceling the debts and debt- equity swaps.

To sum up, the arguments supporting state controlled restructuring and rescuing of companies were rooted partly in a desire to accelerate the privatization process by sale and redistribution of the assets and partly in the large-scale enterprise crisis often showing regional concentration. The process of liquidation involving several hundreds of large organizations and monopolies threatened with climbing unemployment, further shrinking of the domestic market, declining export, growing import, dwindling tax revenues. In short, the argument for top-down restructuring is that one can not close down the entire economy of a country overnight. Thus the state began to take actions in both the organizational and financial areas.

(ii) Organizational restructuring

Crisis management of SOEs by the merger of autonomous firms was a well known method in planned economies. Such measures in Hungary were rare in the eighties to reappear in the early nineties.

The "integration" of coal mines and electrical power plants is one of the most widely known examples. This merger was motivated by the loss making and threatening bankruptcy of the mines. The government intended to overcome the financial and market problems by vertical integration, converging the strong supplier/customer relations and the resulting disagreements into one organization, thus establishing the system of direct control and transfer prices. As a result, the acquired firms get a chance to survive, even though they are now complaining about the loss of their independence. Budgetary subsidies are substituted by draining the resources of the acquiring units, while they get into the position of controlling shareholder).

The splitting up of big SOEs into smaller units was a more widespread approach after organizational decentralization was declared as a priority in the revised privatization policy in 1992. From the company point of view, the traditional form of decentralization upon central initiative is perceived as a hostile administrative decision resulting in cuts in the company's capacities, market shares and negotiating powers against business partners or government bodies, without any compensation. (This type of splitting up has so far concerned mainly food industry and retail trade. Well known examples include many cases of small privatization, the grocery networks in Budapest and in Northern and Southern Hungary as well as the baking industry.)

In the 1990s a new type of organizational decentralization occurred in Hungary. This splitting up, rescuing the SOEs, typically means the sale of property, factories or plants upon the initiative (but at least with the approval) of the large SOEs but with the consent of SPA. Incomes from these deals are recycled to the remaining units to consolidate their financial position, mainly to repay their debts. According to experts, most of the recent decentralizations fall in this category.

The result of this process is similar to the "asset depleting" for which spontaneous privatization used to be blamed. It is an important difference, however, that for this time the final decision is made by government bodies. The permission to sell units and the granting of the incomes to the SOEs can be regarded as an individual preference for them, while privatization incomes of the SPA are significantly reduced by these measures _.

(iii) Financial restructuring

The governmental management of the financial crises of the firms started in 1991 by some exceptional, individual decisions. The three early cases of great concern included coal mining as well as metallurgy in Ózd and Diósgyőr. The fate of these firms indicates that the measures did not amount to more than "fire fighting". They were elicited by mass demonstrations, strikes or other trade union actions. While several billion HUF were spent on the three sectors, these amounts could not but offer a provisional and marginal relief to the firms concerned.

(The "Big Thirteen") The institutionalization of governmental financial restructuring started with the special treatment of thirteen firms. According to a government resolution these organizations were shortlisted on the basis of the following criteria. The operation of these companies "on competitive basis is a national economic interest and the prevention of their liquidation is supported by industrial policy considerations", such as significant weight in exports and in regional employment safeguarding certain professional cultures. From this larger group, central assistance covers organizations producing competitive products or being able to change

markets, at least in a longer run. An additional argument said that the state would actually not suffer any real loss: the repayment of debts is unlikely anyway.

MIT initially studied the special treatment of forty organizations. This list was reduced not according to the competitive potentials but rather according to the characteristics of indebtedness. The government could help the firms which were indebted directly to the state (and not to suppliers or commercial banks).

The total asset value of the selected thirteen firms was assessed at nearly HUF 150 bn. and their total debts at 56 bn. HUF. (These figures do not include supplier credits in the range of another 25 or 30 bn.) The SOEs involved employed more than 80 thousand people. Their turnover plan for 1992 was 230 bn.

It should be noted here that most of the firms concerned, just like other large state SOEs, did already not operate in the traditional frameworks. They were disintegrated into sets of companies in the process of spontaneous privatization or later on, with SPA approval and some of their factories were transformed into joint ventures (Dunaferr, Rába, Hungalu, Ikarus, Pannonglas). Most of them were "slandered" by divesting, spinning-off, selling or transforming their properties and departments and by reducing their staff (often by several thousand people).

According to MIT (1993), the debts of seven companies were cancelled, rescheduled or swapped in the total amount of HUF 11,1 bn. For some members of the group, HUF 3,1 bn. new credit was underwritten by the state. From privatization incomes HUF 4,3 bn. was allocated to reorganization and HUF 3,5 bn. custom duties and tax debts were cancelled. Nearly half of the total cost of more than HUF 22 bn. was received by one firm, Dunaferr Co.

The methods applied typically do not directly increase current budgetary expenditure but they only imply lost revenue and deferred burdens. From the point of view of the companies concerned the special treatment meant individual preferences, an opportunity to solve the acute liquidity problems. Nevertheless, even according to the MIT evaluation (1993), the program achieved only partial success, measured by the number of rescued companies, by the amount of the assets or people concerned, as well as by the stability of results. "It is true ... for each organization that the long-term improvement of their position depends largely on the successful debt consolidation and the accompanying reorganization process, implemented in due time." In other words, crisis management, again, was not more than "fire fighting" even in the most successful cases. It brought some temporary financial relief, without any structural adjustment.

Crisis management even in this limited sense proved to be successful where debts concerned directly the state. Commercial banks could be put under informal pressure for some time by either the government or the companies. Leading state owned commercial banks rarely initiated any liquidation process __, while they kept rolling out the loans to key debtors. (Therefore, for example, the credits of the Big Thirteen were not recorded as none performing.) Due partly to the "permissive" banking attitude, partly to the poor inherited portfolios allocated to the banks at the time of their creation in 1987 and partly to uncertainty and recession equally hindering credit rating and repayment, the capital structure and the liquidity position of leading banks were steadily eroded. This is why the process of debt consolidation was launched.

(Debt consolidation) The actions of the state in 1992 targeted the improvement of the yearly balance sheets of banks by cleaning the portfolios and by swapping the bad debts to government bonds. The first round included a package of HUF 102 bn. face value and HUF 80 bn. swap. This in itself amounts to redistribution as the interests of government bonds are to be paid from the state budget. Redistribution occurred not only in favour of the bank sector but also between banks. The highest gains were achieved by those who accumulated more bad debts without building up adequate reserves, as now they could get rid of their non performing loans cheaply.

It was clear already in the moment of the decision that if nothing else changes than another

substantial part of debts will slip down to the non performing category by 1993. It was also predictable that even the benefits of the banks would be devalued by the consolidation fees to be paid by them and the low interest rate of the government bonds. By international auditing standards, no appreciable improvement was achieved in capital adequacy ratios.

Because of these reasons, it was clear to each actor that consolidation would not remain a one-time opportunity. The 1993 plans focused on raising the bank capital. The position of the banks was improved by swapping bonds for higher coupon rate bonds and by abolishing the debt consolidation fees, although these measures worsened the position of the state budget. Moreover, the amount to be invested in order to achieve an at least a temporarily acceptable capital adequacy ratio _ was estimated at nearly HUF 80 bn. The capital raising obviously means additional burdens to the budget and it may also rearrange the relative positions by eliminating the existing differences in the former performance. This step modifies also the ownership structure by reducing the weight of the actual shareholders (mainly SOEs, if not foreigners) and considerably increasing the share of the state.

All these measures still do not change the position of the indebted firms. In 1993 the notion of "debt consolidation" has been split into two branches of a narrower "bank consolidation" and the new "debtor consolidation". One of the main issues of debates on the governmental level concerned the question: what kind of organization should manage the consolidated enterprise debts. (The solution initiated in 1992-ben, the predominant role of a new state organization, the Hungarian Investment and Development Co., proved to be unviable.) According to the recent proposals, firms having bed loans in the consolidated banks may apply for participating in debtor consolidation. They have to prepare reorganization plans to be evaluated first by a special inter-departmental committee afterwards by the landing bank itself.

According to preliminary estimates, debtor consolidation may concern about thirty thousand loan agreements, most of which involve private companies and not state owned ones. More than half (2300 out of 4000) of the loan agreements entered into the consolidation process in 1992 were executed by private firms. The amount of these credits has not been published. The failure series of private business which were considered to be sound until quite recently, however, explains the growing importance of this sector from the banks point of view.

As a consequence of consolidation, the government bonds issued in the amount of HUF 300 bn. by the end of 1993, increase the state debts and the interests increase current budgetary expenditure. In return, the balance sheets of the banks involved in consolidation temporarily improved. Beside this, the intricate financial maneuvers result in denationalization and for this time literally, not just like in the case of compulsory corporatization: in 1993 the share of the state in the banks has been increased. Thus, the state is restoring its decision making sovereignty both above banks and their debtors. By removing the disinterest of banks in canceling or rescheduling the debts, the government eliminates the obstacles which hindered the financial restructuring of the Big Thirteen. Through debtor consolidation, concerning several thousand firms, bank consolidation process is gradually turning into a comprehensive reorganization program, involving a major part of the economy.

As it is often the case, institutionalization is a two-edged sword also in the restructuring. While the implementation of a standard system can control the endless process of negotiations, at the same time it provides a forum for negotiations and, even more importantly, sends the message to all economic actors that government eventually will come to the rescue. In other words, institutionalization, instead of controlling the processes may lead to their extension.

(Spread of top-down restructuring) The spread in time is already indicated by the aforesaid. It was gradually realized in both the bank sector and business that the methods used in 1992 and 1993 cannot achieve any long-term, "final" solution. The partial portfolio cleaning was insufficient for bank consolidation, while the mitigation of direct indebtedness to the state was insufficient for

reorganizing the big SOEs. The government insists on declaring that 1993 is the last year of consolidation. The parties concerned, however, consider this statement not without good reasons more a wish than reality.

Many analysts agree that this proliferation follows from the nature of the problems. Namely, not one group or another of the banks or firms but the entire economy is in a crisis situation. Successful treatment would mean the creation of a healthy economy. Such a huge and dynamic problem can not be addressed by partial and static tools.

Besides spread in time, the spreading of restructuring to a wider and wider group of companies is also striking. The initial exceptional cases have been followed by institutionalization. The special treatment of 13 firms ended up with proposals to rescue 40 large companies, as originally proposed by the Ministry of Industry and Trade. If such measures are taken in industry, why leave out food processing or the agricultural sector? Of course, Ministry of Agriculture came up with a comprehensive program of restructuring. If there is help for sectors there must be help also for depressed regions. In 1993 the government approved a detailed project to manage the crisis situation of two counties in North Hungary.

It has been noticed before that state support may be expected also by private firms. The agricultural sector was the first to make a public suggestion to allow private farmers to bid for consolidation of their debts if their debt to equity ratio is higher than 25 per cent. The proposing ministry, too, was aware of creating a precedent for the conversion of private debts into state ones. Nevertheless, in late 1993 it seems to be a generally accepted idea to extend the debtor consolidation process to private business, irrespectively to their field of operations.

Private sector can not be discriminated - it is the main reason supporting this approach. The argument, having supported the promotion of private business in the period of planned economy, is now used in favor of extending state subsidies, moreover, to promote nationalization. From the point of view of the entrepreneurs concerned, accepting this principle means no less than enterprising without risk, courtesy to the taxpayers. Bank experts already claim that having heard the news about canceling or rescheduling the debts, even those debtors do not pay who could otherwise do so.

Private firms, mainly well known international investors are the pioneers of extension protectionism. In addition to privileged competitive positions, the preferences can also mean raising the capital by the state or access to preferential funds.

Multinational firms are just as keen to obtain privileges as Hungarian companies and they also expect the state to play a considerable role in economic decisions, an expert of the Ministry of International Economic Relations said. This is also supported by the comments of companies. According to a manager of a big joint venture, "we are much more concerned about the matters of the ministry than our customers". The importance of this approach is illustrated by the fact that many joint ventures with foreign participation hired Hungarian managers with a professional background in large SOEs or in the former administration, thus having wide-spread personal contacts and good skills in informal bargaining.

The volume of investment, employment or export is key arguments of pressure of the (foreign) private firm, too. This reasoning is often accompanied by threats such as substitution of domestic suppliers by import and close production either temporarily or for good.

The Association of International Companies in Hungary was established in 1992 by 14 multinational firms. They initiated an offensive strategy in the form of a "dialogue" with the government. At negotiations held about taxation, employment or industrial policy they, too, claimed that they invested more than 100 bn. HUF in Hungary and employ about 25,000 people. Suzuki for instance asked capital raising by the state first for its suppliers than for itself, quoting that after coming on full stream in 1995 its production would reach 40 bn. HUF, i.e. 5 to 6 per cent of GDP. The plan to curb or stop production was first raised in General Electric-Tungstam and in the paper industry.

Most of the requested and obtained preferences, including the regulation of foreign trade, mean rearrangement of company positions by the state. While in the case of these joint ventures with foreign participation the products are not ab ovo unmarketable and the companies are not hopeless cases, the income earned on the markets available is obviously not enough for profitable operation. Taking advantage of their favorable negotiating positions, foreign entrepreneurs do not always bring in market style business culture to Hungarian economy. Instead, for quite understandable reasons, they are taking the path of least resistance, adopting the prevailing business culture of milking the state budget.

6. SOME LESSONS OF HUNGARIAN RESTRUCTURING POLICIES

While in comparative studies Hungary is usually considered as a country committed to fast privatization by sale, without restructuring, a closer analysis of the last five years reveals that restructuring was started in several forms and on several levels.

(Advantages and disadvantages of bottom-up approach) In the late eighties organizational and financial restructuring processes were typically initiated and implemented by the SOEs themselves. Restrictive monetary and fiscal policy, deregulation and liberalization of foreign trade and prices hardened the budget constraint of large SOEs, too. Thus, the most important lesson of spontaneous privatization is that, at least on the short run and under a specific constellation of power, it is possible to harden the budget constraint by changing the economic environment but without any restructuring implemented by the state. In this period the hardening of the budget constraint was not a product but the most important motivation of restructuring. Beside the need for these measures, bottom-up restructuring also required that firms have the legal possibility to carry out the process by their own intentions. This chance was provided by the growing decentralization of ownership rights, as a consequence of former and simultaneous economic reforms.

The bottom-up restructuring seems to have several advantages. It is not based on administrative measures but on negotiations within the business sector. Decisions are made on the enterprise level, where most information is available and where the motivations are most immediate. The message of this situation is particularly important in the period of emerging the market system: firms can not count any longer on state assistance but they have to solve their problems by reaching agreements with their business partners (customers, suppliers or lenders). In other words, bottom-up restructuring is a key element in separation of economic units from the state and in the new orientation towards horizontal and competitive relations. It also has the considerable benefit of not putting direct burdens on budgetary resources.

On the other hand, bottom-up restructuring has had the disadvantage of often producing quasi-solutions. The process of splitting up enterprises into a group of companies did not eliminate state ownership, nor has it attracted additional capital, new technology or markets. The new but still state owners, the holding companies and the commercial banks did not turn into successful owners. Efficient and long term systems of corporate governance have not been established. Partly for this reason, any achievements such as better liquidity or cost reduction have proven to be temporary or insufficient to hinder declining production and growing unemployment. It is also true that while not increasing budgetary expenditures, bottom-up restructuring has not added to central incomes, thus implying the risk of growing deficit.

(Motivations of top-down restructuring) The above mentioned problems were not yet acute, however, when the new government extended direct central control to corporatization and privatization decisions. While bottom-up restructuring was blocked and the centralized system has

not made any restructuring steps except for a few specific sectors and firms, it has slowed down privatization. All these factors have played a significant role in the devaluation of state assets and in sharpening of macroeconomic tensions.

Thus, ironically, centralization of privatization decisions and all ownership rights has contributed to the growing demand for centrally controlled restructuring both on the side of the government and the SOEs. The introduction and widening of the top-down restructuring has been clearly supported by the pressure of enterprises, afflicted by the shrinking of markets, growing competition, old or new debts or growing costs including high interest rates and taxes. On the other hand, the attitude of the government is also understandable. It can not be explained simply by ideological reasons or by the influence of forthcoming elections, even if these considerations should not be neglected. There is also a factor of heavy pressure. The government can not allow the liquidation of several dozens of large SOEs, a new surge of unemployment or a dramatic drop of exports. Fiscal and monetary administration find it more and more difficult to neglect the pressure of the firms, already enjoying the support of new asset management organizations (State Property Agency and State Holding Company). Financial administration has the only option to use more and more hidden forms of subsidies, not increasing directly and immediately the budgetary expenditure.

(Top-down restructuring and redistribution) Without privatization, without any financial intermediaries, without any new and solid methods of state asset management, several features of top-down restructuring seem to be similar to the characteristics of redistribution in a centrally planned economy in many respects.

First, the specific micro level decisions defining company positions are made by central authorities (Parliament, government or inter-ministerial committees). Sub centers of redistribution also continue to exist. In this group, the role of branch ministries is being taken over by organizations representing the state as owner (SPA and SHC). These organizations have developed the old ministry attitude in the representation of company interests.

Second, as far as the methods and criteria of decision making are concerned, the old approach of central selection and negotiations by individual companies or groups of companies continues to persist. Decision makers try harder to consider the competitive potentials of a business or a product. While this evaluation can be now based on safer grounds taking into account the judgment of the global market, the key criteria continue to include the size of the company (volume of production, sales or employment) and its monopolistic position.

Third, at the beginning, preferences were given to state owned enterprises (and commercial banks). Several large SOEs, however, were left their own devices, while their rescued group was swollen by foreign investors and domestic private entrepreneurs. This obviously reflects the shift of bargaining potentials and negotiating positions within the company sector.

Fourth, the tools of central restructuring include the traditional methods of changing the organizational structure and the financial position of the firms. Direct budgetary subsidies are overruled, however, by new forms, characterized rather by loss of income, postponed expenses and increased state debts than by current budgetary expenditure.

(Advantages and disadvantages of top-down restructuring) From the point of view of the government and the firms concerned, the benefits of centrally controlled restructuring or redistribution are obvious. The process gives the chance for the companies to survive, temporarily decelerates recession, controls the drop of certain macroeconomic indicators.

Paradoxically, four years after the collapse of the system of planned economy, we have to go back to the old question of reform economists: what are the disadvantages of central redistribution.

The costs of realizing the benefits must be paid also in the strict economic terms, including

the preservation of a non competitive production structure, the predictable surge of budgetary deficit and foreign debts as well as growing inflationary pressure. Since the unfavorable effects on equilibrium can be delayed but not eliminated, a redistribution spiral may be unleashed. Costs will be financed, among others, by growing taxes that undermines still more entrepreneurships, simultaneously increasing the need for subsidy and reducing the funds available for distribution.

A still higher price has to be paid for the short term relief of top-down restructuring in terms of a distorted orientation of business organizations and of the economic mechanism as a whole. At the end of 1993 it is clear that private business has successfully managed to stand in the SOEs queue. Consequently, privatization in itself does not eliminate the need and opportunity of top-down restructuring, that is, central redistribution. Companies, including private firms, try to obtain governmental preferences in order to overcome their market problems. This leads to laziness and reproduction of disequilibrium. Therefore top-down restructuring does not remove but, on the contrary, restores the soft budget constraint, characteristic for the planned economy, with all of its implications. This approach is anti-competition because the entry of new actors is hindered by the advantages of others and by non-transparent rules and regulations. It also anti-consumer by limiting the choices and by keeping prices and taxes high, in order to cover the costs of redistribution.

(Alternatives of top-down enterprise restructuring) The extension of state controlled restructuring and redistribution have been the logic consequences of the centralization of privatization decisions followed by centralization of all state ownership rights. This does not mean, however, that redistribution developed into one single or even a decisive feature of the economic mechanism, nor that it has become impossible to put an end to the process. The companies do need to be restructured and the state (the government) has to play a role in this process.

If the argumentation was convincing that a centrally controlled restructuring has extremely dangerous features on the long run from the point of view of the operating of the entire economy, then an alternative solution should be found. The starting point could be the liberal concept proposing that the primary function of the state is to establish a sound system of laws and regulations and transparent rules of the game. The state should not influence the business environment but by indirect means and it is not a responsibility of the state to define directly the positions of different companies or groups on microeconomic level. Therefore it is not a reasonable approach either from the business point of view or from the point of view of overall economic efficiency to assign the task of restructuring of the companies before privatization to central apparatuses, lacking information, concern or responsibility.

A better alternative is offered by the bottom-up approach based on the survival drive and active efforts of enterprise management. Since this is not a flawless approach either, as a general rule it seems to be reasonable to leave restructuring to the new owners, replacing the state. This means that privatization is the best way of restructuring. Of course it is not simply a matter of governmental decisions to accelerate privatization of large SOEs. Hungarian experiences indicate, however, that this process can be promoted by the active involvement of managers (i.e. by decentralization of privatization decisions) and by not giving the highest priority to the sales price.

In the much smaller range where this method cannot be applied, the tasks of restructuring should be assigned to special organizations established for this very purpose. It is essential, however, not to set up these organizations as governmental bodies spending public funds, but they should be at least partly privately owned agencies or ventures, risking private capital. The state should support the creation of such financial intermediaries by providing the necessary legal backgrounds and finance but resisting to any direct decision making or imposing on them political considerations. While there is no promise of any quick and painless solution, this alternative may be expected to involve more reasonable methods of selection and treatment and it can mitigate the risk of a new invigoration and dominance of central redistribution.

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_. "Restructuring during transition is a term used for many different operations by changing existing enterprise into viable companies capable of working in a market environment", including braking up monopolies, technical reconstruction and financial rescue operations (WIIW 1993, p. 48). A comparative research project defines enterprise restructuring as a complex process of "the adjustment of enterprise sector to the new conditions", differentiating legal, organizational, commercial, industrial and financial restructuring (CEFRES 1993, pp.3-4)

_. In principle, restructuring may include the changing of production system, technology or markets. These areas, however, have benne excluded now by the restraint of "other than the normal course of business". As the paper focuses on restructuring of state owned enterprises, it will not scrutinize restructuring after privatization, when the necessary measures are taken by the new (private) owners. The definition applied here is similar to the definition proposed by Carlin and Mayer (1992) except for this last part.

_. Czechoslovakia was the only country with a comparable high degree of centralization.

_. For more details of this process see Voszka (1984). The overwhelming majority of large SOEs having trong negotiating positions and enjoying the support of branch ministries, managed to avoid splitting up. Except for the trusts, mainly in food processing industry, the committee set up from functional ministries could separate only some factories form a few SOEs.

- _. For more details see, inter alia, Antal (1985), Csandi (1984), Szalai (1989).
- _. For an excellent summary of this process see (Szalai 1989).
- _. Law XXXVII. of 1875
- _. Law VI. of 1988
- _. Law XIII. of 1989
- _. Note that the growing number of registered economic organizations does not necessarily mean new market actors. Some of them were transformed from previous private entrepreneurs without legal entity or from semi-legal units of second economy. On the other hand, many small ltd-s are "shell" companies without any activities, created only to obtain tax preferences.
- _. For more details see Móra (1991), Privatizációs Kutatóintézet (1991), Tóth (1991), Voszka (1991).
- _. There are no reliable data on the scope of any type of spontaneous privatization. Matolcsy (1991) estimates that in the process of spontaneous privatization, some 250 (large) SOEs were partially or nearly fully transformed into companies, involving assets in the range of 130 billion HUF. (At that time the state assets to be privatized were estimated at a total of 2000 billion HUF.)
- _. Kllai (1992) assumes that the scale of hidden privatization, applying these or other methods, and not having been limited to the SOE managers, is similar to the scale of official privatization.
- _. The strength of trade unions in Hungary was not comparable to that of the Polish unions. The workers were represented in the enterprise councils. They had some voice there, but the self governing bodies, as it was mentioned before, were practically dominated by the enterprise and factory management.
- _. See the end of the story in Chapter 4.
- _. Law VII. of 1990 and law VIII. of 1990
- _. Law LIII. of 1990
- _. This was the time of launching the First and Second Privatization Programs which soon turned out to be a failure. The first program involved 20 large SOEs while the second one 23 firms at the total book value of 54 billion HUF and 24 billion HUF, respectively. These programs are described in details by Matolcsy (1991).
- _. Law LXXIV. of 1990
- _. Law XXII. of 1990
- _. Data of other ministries are not available.
- _. Law LXXXVI. of 1990
- _. Alliance of Free Democrats (1990)
- _. Law LIII. of 1992
- _. Law LIV. of 1992
- _. According to the published proposals, credit notes up to 100 thousand HUF could be acquired by all citizens for obtaining minority shares in different firms without any personal investment or collateral. Loans can be repaid from the incomes of the company. The construction of credit notes is introduced in the guidelines of asset management policy for the year 1994, under the name of Small Shareholder's Program.
- _. Law IL. of 1991
- _. There is no registration of the incomes recycled to the SOEs. One of the SPA directors, however, estimated the amount of this "reorganization fund" equal to the official privatization incomes (about 130 billion HUF between 1990 and July 1993).
- _. Government Resolution No 3298/1992. For the detailed history of the "Big Thirteen" see Karsai (1993).
- _. "Crisis management was successful in the case of eight companies and the position of one firm was improved as a result of earlier measures" - MIT writes. Looking behind the number of SOEs, the rates seem still worse. According to the calculations based on MIT data, only one third of the assets and employees of the "Thirteen" was rescued.

_. In 1992, the year of the big bankruptcy and liquidation wave, only about 80 proceedings were initiated by banks, representing less than one per cent of all cases.

_. Moreover, the new laws on banking and accounting, enacted in 1992, introduced much more rigorous international standards. This in itself worsened the positions of banks, or, more precisely, brought to the surface the hidden problems.

_. At the beginning, consolidation concerned banks majority owned by the state. In the process of 1993 11 banks were involved, including banks with mixed ownership.

_. As a result of consolidation in 1992, the amount of bed debts decreased by 100 bn. to increase by 30 bn. in the first half of 1993, while the total qualified debts increased by more than double of this sum.

_. This capital adequacy ratio was set at 4 per cent. The achievement of international standards would require an investment of 140 bn.

_. That is, "bed" debtors of "good" banks are excluded from this opportunity.

_. According to the last proposals, these extended ownership rights of the state will be exercised not only by the present shareholder of the banks, i.e. by the State Holding Company, but also by the Ministry of Finance, because of budgetary investments. The ministry wants to control 75 per cent of voting shares until the end of 1995, the termination of the debt consolidation agreements.

_. It is not hard to predict that the passive treatment concentrating on existing credit burdens will soon turn out to be insufficient. Like the banking sector, the firms will also need fresh capital to cover their losses and to modernize their production system.

_. A specific power constellation is meant here that in the last years of the old political regime and in the period right after the parliamentary elections, there was already and still no political party strong enough to offer a firm support to large SOEs. The disintegration of the traditional system of interdependencies and the plasticity of the new system are analyzed in detail by Csanádi (1993).