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The Revival of Redistribution in Hungary

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Politicians and analysts, businessmen and citizens generally agree that economic transformation should amount to market economy creation. Paradoxically enough, the gradual establishment of the basic institutions of the market, including private ownership, is contrasted by the signs of the reactivation of another integration mechanism, namely the redistribution. Following a temporary withdrawal in the late 1980s and early 1990s, the direct redistributive function of the state seems to have gained new vigor.

Redistribution[1] was started by the government via centralizing ownership rights which had been delegated to enterprise managements in the prior economic reforms. The last step of decentralization was made in the mid-eighties, when enterprise councils set up from representatives of the management and employees were authorized to exercise most ownership rights, including the appointment of enterprise managers, the decisions on mergers and acquisitions as well as establishing companies with state assets. From 1990 on, several dozen enterprises were taken under direct administrative control one by one and this process was followed by the enactment of mandatory corporatization in 1992. Direct state control and corporatization mean the removal of enterprise councils and the assignment of all ownership rights to the State Property Agency, to the central privatization organization controlled by and reporting to the government.

Thus corporatization, to be completed by the end of 1993, can be identified as "renationalization."[2] According to Polányi's definition, this in itself amounts to redistribution, i.e. the collecting of controlling rights. The question is, to what extent central authorities will be able or willing to utilize their new position, or, in other words: will formal centralization be followed by the redistribution of company positions and incomes or not.

This question is not easy to answer. The redistribution process is still less transparent and more difficult to quantify than before due to its initial stage and to its new methods which do not result in direct budgetary expenditure. Therefore the extension of redistribution is can not be characterized only by macro economic data. Instead of defining the share of redistribution and drawing final conclusions, this paper rather tries to outline some typical phenomena and formulate hypotheses for a future empirical study.

1. Old and new methods

The methods will be analyzed with a focus on showing their redistributive effects that are often not evident. We will try to outline their scope of application, the financial consequences and to reveal the underlying reasons and motivations. It will be shown that most of the new features under the headings of reorganization, debt consolidation and market protection fall in the category of redistribution.

1 Following the definition proposed by Károly Polányi (1976) and generally used in the evaluation of planned economy, the term "redistribution" means the central pooling and redistribution of rights and goods. This definition is limited here to the redistribution of enterprise positions incomes

2 For more detail, see Sárközy (1993) and Voszka (1993). Renationalization is used here in quotation marks, because the form studied below means the reallocation of controlling rights inside the framework of state ownership. The term renationalization will also appear in its original meaning.

1.1. Special policies

The traditional forms of redistribution of enterprise positions like replacement of the management and changing the organizational frameworks have been used in the SOE sector also in the recent years. The preconditions of these steps were created by the corporatization of state owned enterprises, enabling SPA in stead of the enterprise councils to make any decision on mergers and splitting up or on the appointment of new managers.

(Changing the guard) Not only the position and opportunities of the persons concerned, but that of the enterprises might be directly affected by the replacement of managements and the appointment of board and supervisory board members in commercionalized enterprises. On the one hand, new managers enjoying the confidence of the state owner can contribute to the stabilization of the firm's position using their good political or business contacts and thus acquiring additional resources or preferential treatment. On the other hand, employees often perceive the new unknown managers as actual threats to their vital interests, as it has been shown by several actions, including strikes.

Statistical data are not available about the overall range of management replacements, except the data published by SPA for the year 1992. According to them, 72 chief executives were fired from 126 enterprises taken under administrative control. 12 cases were recorded in companies after corporatization and before privatization. Replacements concerned several big firms like the national oil company, the Hungarian airlines and several pharmaceutical enterprises. In some sectors such as printing or state farms, most firms were reached by the wave of management change. In 1992, SPA assigned some five thousand people as Board members or Supervisory Committee members of commercionalized enterprises (Government of the Republic of Hungary, 1993).

Most replacements were explained by SPA quoting the acceleration of the privatization process or the prevention of loss of state assets. These are soft categories. Without any clear-cut evaluation criteria made transparent for everyone concerned, all managers are threatened continuously and have good reason to feel that "anything can happen". In a climate of overall and incalculable threat, managers are preoccupied for showing loyalty and "positive attitude" and for trying to find out the values and intentions of the bureaucracies. In such circumstances, on the other hand, it is difficult to disprove the general belief about the direct political influences on appointing managers and board members.

(Changing the organizational frameworks) Mergers and splitting up the firms have always meant the redistribution of enterprise positions and future opportunities. In the last few years, however, some of these actions have also entailed direct income redistribution in form of compulsory purchasing of another company's assets or serving as substitutive or complementary subsidies.

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 (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.

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[3].

(Income redistribution) The redistribution of financial resources between SOEs appeared in different forms in the 1990s, even independently from organization changes.

The process started in industrial sector. The dramatic drop of budgetary subsidies at the turn of the 1980s and 1990s coincided with the shrinking of the market due to loss of most COMECON contracts and the sudden sharpening of import competition. According to the Ministry of Industry and Trade (1991), forty per cent of industrial firms became loss makers. The general depression, the growing pressure of regions specially inflicted by the crisis and the attempt to stabilize its own position, the Ministry of Industry and Trade (MIT) declared the new policy of "getting closer to the enterprises", claiming that "the state must not withdraw from its own property and the ministry has to deal with operative matters" (Kovács, 1991).

As a first step late in 1991, the industrial administration tried to address the regional crises. By that time the draft of a comprehensive industrial policy was prepared. Its tools included state guarantees, preferential credit rates, canceling of debts, debt to equity swaps and other subventions. This was the first time to publish the plan of the ministry to investigate the positions of forty big SOEs.

The governmental management of enterprise crises 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

3 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 proceeds (about 130 billion HUF between 1990 and July 1993).

offer a provisional and marginal relief to the firms concerned.

SOEs were kept in uncertainty by the incalculable behavior of the government, but it did not seem hopeless for them to try to get subsidies all over again. The institutionalization of redistribution was supposed to remove the uncertainty and, at the same time, to set frameworks for enterprise bargaining.

1.2. Attempts at creating a formal system of redistribution

(The "Big Thirteen") The creation of a formal system (i.e. institutionalization) of financial redistribution started with the special treatment of thirteen firms. According to a government resolution[4] these enterprises were short listed on the basis of the following criteria. Their operation "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 or safeguarding certain professional cultures. From this larger group, central assistance covers firms 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 does 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.

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.

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[5], as well as by the stability of results. "It is true ... for each firm 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 unsuccessful where debts did not directly concern 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[6], while they kept rolling out the loans to key debtors. (Therefore, for

4 Government Resolution No. 3298/1992. For the detailed history of the "Big Thirteen", see Karsai (1993).

5 "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 even worse. According to the calculations based on MIT data, only one third of the assets and employees of the "Thirteen" was rescued.

6 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.

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.[7] 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[8] 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 favor of the bank sector but also between banks. The highest gains were achieved by those who accumulated more bed 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[9]. 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[10] 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 this 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, i.e. 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[11]. 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

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7 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.

8 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.

9 As a result of consolidation in 1992, the amount of bad 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.

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

11 That is, "bad" debtors of "good" banks are excluded from consolidation.

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 renationalization, and for this time literally, not just like in the case of compulsory corporatization: in 1993 the share of the state in the banks increased.[12] 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.

(Guarantees) Bank consolidation has the backward effect of mitigating the risks resulting from bad debts. There are accepted forms of risk mitigation in market economies by guarantees to share the expected burdens parallel with making a loan contract. Underwriting by the state has been more and more widely used in Hungary, too.

According to Ministry of Finance (1993.a), a total of 4,3 bn. HUF including 3,6 bn. HUF enterprise credit was guaranteed in 1992 by the state budget. Till May 1993, state guarantee was recorded almost as high as the total application in 1992. Moreover, the list presented by the Ministry is fare not complete. It does not include the sum of 3,1 bn. HUF made available to the "Big Thirteen" nor other items each in the range of several billion HUFmade available to coal mines and other corporations. The guarantees made by other government authorities are to be added to these amounts. According to the report of the National Auditors, 24 bn. HUF was underwritten by SPA by the end of 1992, and the amount was nearly doubled by mid-1993 (Nagy, 1993).

The individual cases were gradually followed by institutionalized arrangements. Underwriting Co., an organization majority owned by the state, started its activities in early 1993. Its objective is to support the credit rating of private business which are able to promise high return rates but cannot meet the collateral requirements of commercial banks. The company guarantees up to 80 per cent or 100 million HUF of commercial bank loans. Underwriting Co. is backed by the Small Business Guarantee Fund. This is financed from the central budget. This financial construction offers guarantees up to 70 per cent of the amount guaranteed by Underwriting Co. This means that the greater part of the risk is directly hedged by the state.

Until December 1993, Underwriting Co. guaranteed 3,7 bn. HUF for 6,6 bn. HUF credit. More than half of this debt was raised under the highly preferential Existence Loan scheme. About a third of the proposals were disqualified, mainly because of unacceptable business plans (Veres, 1993).

If the borrower fails (a likelihood estimated by experts officially at 30 per cent but informally even at 60 per cent), the assets offered as collateral are transferred to the shared ownership of the commercial banks and Underwriting Co. In the short run this means renationalization, just like many other forms of state support.

The second important terrain of establishing the formal system of underwriting by the state is the Export Guarantee Co., set up in 1991. The expansion of its operation and the method of state participation in export financing system is under discussion recently (Ministry of Finance, 1993.b).

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12 According to the last proposals, the 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 percent of voting shares until the end of 1995, the termination of the debt consolidation agreements.

Unlike Underwriting Co., loans linked to export should be available for big transactions. Considering the market problems of large enterprises, this method may tend to finance sales where the buyer is more or less clearly insolvent[13]. Thus, export guarantee may become a market building tool of the state with similar to the Comecon trade consequences as far as the production pattern and payment processes are concerned.

State guarantee may be crucial for enterprises especially if they need borrowed funds to finance the raw materials or components needed for production. Thus the position of a company is directly influenced by obtaining guarantees in a process of case by case state decisions. If the borrowers fail to pay the central budget meets his liabilities, which means income redistribution. Thus, state guarantee may become a new and increasingly popular method of redistribution. It fits in those tools of redistribution whereby the budgetary expenditure is postponed and deficit financing is transferred to future governments. The crucial question here is of course the amount of underwriting claims.

In the last few years this type of budgetary expenditures was not more than ten billion HUF. Experts in the Ministry of Finance expected the same order of magnitude for 1993. Up till Autumn of this year, the SPA as an underwriter paid out 8,7 bn. HUF, which was more than half of its underwriting liabilities. Its expenditures for guarantees are estimated at 15 bn. HUF for 1994 (Asset Policy Guidelines 1993). If the amount of guarantees keeps climbing as it actually does and more and more organizations will be unable to meet their liabilities in a lingering recession then the burdens of the state budget will steadily grow.

Formalized systems are double edged swords in general and also in the particular case of state guarantees. A formal system can establish standard processes and thus control the scope of bargaining. (This is one of the most important and overt objectives of the Ministry of Finance in transforming the export guarantee system.) On the other hand, however, institutionalization establishes a forum for bargains and suggests to all market actors that there is a chance to obtain preferences. Thus, institutionalization may have the effect of escalating the processes in stead of controlling them.

2. Escalation of Redistribution

The spread in time is already indicated by the aforesaid. It was gradually realized, that the methods used for consolidation 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[14]. 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 escalation of redistribution 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,

13 The 1992 Russian wheat export may be quoted here as a warning example. A 100 million dollar guarantee has already been called by the lending bank.

14 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 systems.

why to 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 is 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 entrepreneurship 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 volumes of investment, employment or export are key arguments of pressure of the (foreign) private firms, 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 5 to 6 per cent of GDP. The plan to curb or stop production was first raised in General Electric-Tungsram and in the paper industry.

Most preferences including the control of international trade mean the central redistributing of enterprise positions, irrespectively of any claims of major international investors about the overall economic benefits of their successful negotiations with the government.

The conflicts between organizations operating in the same business and at different points of the vertical system are direct manifestations of the redistributing effect. Higher customs duty and the restriction of import volumes are obvious benefits for domestic producers while punishing the importers. The selective reduction of customs duty means a disadvantage for competitors interested in import. Conflicts are further escalated by relations with international organizations. This was made clear recently by the termination of the two-year term of payment of the customs duty of TV sets. According to a MET expert the customs duty cannot be increased unless compensation is offered to key partners in the process of GATT negotiations, that is, if customs of

other items are reduced according to their preferences. Likewise, the limit fixed at 15 per cent of EC import means that - say - the entire steel sector can be protected but no other industry. In other words, any preference of a sector or a product might be given at the costs of the others.

To sum up, most of the international investors holding strong negotiating positions and having seen the growing helpful willingness of the government, tend to apply for preferences and to achieve individual or group subsidies just like the "big socialist enterprises". 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. Thus, 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 to the prevailing business culture of milking the state budget.

This form of redistribution, too, tends to the escalation of privileges in space and time. While escalation in space is limited by international contracts, especially in foreign trade, the preference of joint ventures elicits due criticism from domestic firms and provides a basis reference for them to also request privileges. Escalation in time is indicated among others by the important argument of foreign investors claiming that the business environment has changed since the time of planning or making their investments. If changing conditions, however, are considered to be a sufficient ground for getting preferences, it will be hard to stop the cascade.

3. Traditional redistribution or a new model?

The recent redistribution has many features comparable to the model of the preceding decades as well as several new characteristics. First, the specific micro level decisions defining company positions are made by central authorities (Parliament, government or inter-ministerial committees), just like before. 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 (like SPA). 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, 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.

Fourth, preferences were given to state owned enterprises (and commercial banks) at the beginning. 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.

Thus, redistribution appears on several levels, following the ownership structure. The first level includes the rescuing of SOEs where the government acts simultaneously as an owner and a regulator of the market. On the second level the government only appears in the role of regulator, granting preferences to fully or majority privately owned firms. The third level, not covered by this paper, includes the allocation of state owned assets where the state does not perform a direct regulatory function but it distributes its assets to preferred strata or institutions free of charge.

If central redistribution of company positions and incomes is not limited to state ownership, it means, that privatization in itself does not put an end to state redistribution. It has to be added,

however, that there are several interfaces between the transformation process of the ownership structure and redistribution.

One of these connections is the tendency of renationalization, and in both senses of the term used in the paper (expansion of state ownership and centralization of ownership rights in state controlled areas). Any form of renationalization opens the way for the distribution of assets, that is, for using privatization methods other than sale. On the other hand, if distribution means the streamline of privatization then companies have to be restructured first. An ailing company with heavy debt burdens is not accepted even as a present. In case of sale with substantial preferences, granted to foreign investors or lately to domestic ones, the dependency on state support is likely to revive in the operation of these private firms. It is clear that the pressure of firms plays a crucial role in the expansion of state redistribution. This pressure is due to the loss of markets, strengthening of competition, inherited or newly amassed debts and growing costs, including high interest rates and taxes. The government attitude is also understandable. Ideological commitments or direct political election objectives are not the only point, their doubtless implications notwithstanding. Besides these factors, state intervention is prompted by the domino effect of the bankruptcy law, the continuous dwindling of production and exports, the upsetting of the external financial equilibrium and the regional concentration of unemployment.

Because of these reasons, the key question does not concern the advantages of redistribution for the state or the firms. Paradoxically, four years after the collapse 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 in the strict economic terms, including the preservation of a non competitive production structure, the surge of budgetary deficit and foreign debts as well as growing inflation. 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 entrepreneurship, 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 redistribution in terms of a distorted orientation of the firms and of the economic mechanism as a whole. Companies, including private firms, try to obtain governmental preferences in order to overcome their market problems. This leads to laziness and reproduction of disequilibriums and restoration of the soft budget constraint, characteristic for the planned economy, with all of its implications (Kornai 1980). 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 is also anti-consumer by limiting the choices and by keeping prices and taxes high, in order to cover the costs of redistribution.

The undesirable implications of redistribution and the mechanisms supporting its proliferation must be taken into account even if the redistribution of company positions and incomes cannot be considered the single or even a decisive feature of the economy. There is no homogeneous integration mechanism in the recent Hungarian economy. The lack of such a unified system, however, does not disguise the simple formula where state ownership and private ownership are perfectly separated and are operating along quite different models. There is no standard integration mechanism even within the different ownership groups. Undoubtedly, there is a competitive market operating in several segments of the economy, however, private firms (especially the big foreign investors) demand privileges from the state. As for the future, the degree of difference between the old and new model of redistribution in terms of motivations and effects is a critical question. Is it possible for two integration mechanisms of conflicting logic to coexist in the long run? What is the pattern of a mixed economy set out from the economic and sociological traditions of redistribution which is a mixed system not only from the point of view of ownership but also inside the fences of the companies, irrespectively of their proprietary structure? Does it fit

in any widespread economic model or do we, as it has been already suggested[15], have to reckon with the emergence of a new economic model in Hungary and Eastern Europe?

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