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CHARACTERISTICS OF PRIVATISATION IN HUNGARY AND SOME OF ITS SOCIAL EFFECTS*

The transition from a planned to a market economy had hardly begun in Hungary when sociologists and other social scientists sensitive to social ills began to voice their fears of and hopes for the effects of the economic transformation. A number of more or less amorphous or malleable new phrases have cropped up both in the jargon of sociological discourse and in common speech, all denoting supposed or real social problems. In the course of this paper I will discuss some of these.

The re-formation of the middle-class, for instance, (supposedly concomitant with economic transformation) has begun. Szelényi and Manchin made popular the oft-quoted phrase 'achieving middle-class status' in a study they carried out. Referring to earlier works of Pál Juhász (Juhász 1975, 1983), as early as 1985 the authors claimed that the social ascent of the middle-class (a process that made a fresh start in 1945 only to be cut short four years later) had begun anew in the mid-seventies.[1] The definition of the new middle-class refers to the reborn social stratum of peasant entrepreneurs and to rural enterpise as a whole (Szelényi–Manchin 1990). Szelényi continued to use the term in this narrower sense in his later works, identifying the bourgeois with the entrepreneur, and the middle-class with the 'owner class' (Szelényi 1990). This interpretation leaves little room for those more traditional criteria associated with the middle-classes of Western countries — criteria which include education levels and certain well-defined cultural, moral and value systems passed on from generation to generation. This contrasts with the gross definition of a money-making entrepreneur, a businessman.[2]

At any rate, irrespective of the uncertain semantic connotations of these terms, the revival of the formation and traditions of the middle-class has, from the very start, been posited as one of the expected social effects of the restitution of private property.

* This paper was written in 1991, but the main trends associated with the growth of the private sector have changed little since, as witnessed by more recent data added to it in spring 1994.

1 The date is no mistake. The authors believe that with the rise of the middle class from the dissolution of feudal hierarchy and the division of large aristocratic estates, peasants began their climb into the middle class *en masse*.

2 In recent months, the professional debate about the definition of the rising middle-class and the interpretation of social trends has become more lively and complex. The „Rising Middle Class Research Group" of the Hungarian Academy of Sciences operates as a scholarly workshop, regularly publishing its discussion papers (Tóth 1991).

Another common topic is the spectre of a new elite arising from the old. This has evoked a comparably vivid social response (Szalai 1989). In this schema, the old communist ruling elite (the nomenclatura) is seen as working its way into top economic positions to assure its personal survival.

Yet another potential social 'danger' is posed by the 'comprador intelligentsia' who establish footholds for foreign investors — foreign investors who may then 'take over' the nation's economy. Again, Iván Szelényi warns of this 'threat'. He identifies two more substrata of the new capitalist class, the new petite bourgeoisie (i.e., small entrepreneurs) and the 'new bourgeoisie' — former company managers and their businesses (Szelényi 1990).

The old debate on worker-owned companies was rekindled in reference to the chances workers had of taking part in the privatisation process. Participants in this debate warned that the transferral of ownership might dispossess those whose knowledge and skills are needed to operate the assets in question. As Erzsébet Szalai puts it: „The foremost prerequisite of a truly competitive market is that the stratum of owners be as wide as possible ... For this reason, reform of ownership must be democratic as well as radical ... Without such a reform current social tensions are bound to rise to the point of explosion" (Szalai 1990:193).

Apart from the warning bells being rung by social scientists, the privatisation programmes espoused by most political parties also mentioned allegedly inevitable widespread short-term social consequences of privatisation — consequences which, in the longer term, are to be ameliorated by an upturn in economic conditions. It has been taken for granted that unemployment will rise as new owners find that large state-owned firms had been uneconomically overstaffed. In addition, technology transfers from the developed world would further aggravate the problem of redundancy. To redress these ailments there is the 'hope of the future', the entrepreneurs — the emerging legion of innovative and independent businessmen who will (allegedly) make the country prosper by enriching their own businesses.

Reality, however, often defies theory. Of course, it takes time for theories to be proven or debunked. There are many potential tendencies, *in statu nascendi*, that are difficult to distinguish from other processes that affect society from day to day. In spite of this, however, in what follows, I will attempt to provide the reader with a rough outline of the few manifest social effects obviously due to the introduction of the private economy. Facts are scarce, and so are comprehensive data. Although the present interpretation relies first and foremost on these, I was obliged to make use of methodological observations and inferences to come to some of the conclusions that the observed data arguably offer.

Let us begin with the concept of privatisation. Privatisation is generally taken to mean the process by which state-owned assets are put into private hands. The term, however, is given a much wider interpretation in Hungary today. I have chosen to adopt this wider interpretation.

There are, in fact, four kinds of (so-called) privatisation processes going on in Hungary today, all of them sub-processes of the transition from a planned to a market economy. As partial processes, their theoretical bases, courses, and primary target populations are substantially different.

The four processes contributing to the establishment of the private economy are as follows (in chronological order):

1. A natural growth of the private sector, dependent on individual initiative.

2. 'Spontaneous privatisation', i.e., the transformation of large state-owned companies into corporations, or their decentralisation into smaller units (often through joint ownership) at the initiative of company management.

3. Enterprises sold to foreign buyers, especially by the State Property Agency (SPA). Or, 'pre-privatisation', small-scale privatisation (or lease) of small shops and restaurants including employee buyouts (with the permission of the Agency).

4. Reprivatisation (just beginning), the allocation of vouchers to compensate for nationalised property or forcibly collectivised land. These vouchers entitle the owner to purchase new property.

As I mentioned earlier, these four types of privatisation processes affect different social strata. I hasten to add that, so far, the majority of the population has not been affected at all, although hopes and fears are present in almost every family. In what follows, I will outline the perceptible social effects of the four processes in question.

Natural Growth of the Private Sector

This sector includes all individual and collective ventures whose members have become private, independent — and self-employed — market agents of their own will. These include tradesmen, artisans, and other 'mom and pop' businesses with or without employees; collective forms include business partnerships which have existed since 1982, Ltds, LLCs, or other companies which have been allowed to operate since 1989.

The development of the private sector began in 1982. In 1980 only 3.4 per cent of the active population had a job of one kind or another in this sector. This number increased slowly after 1982 to 11 per cent in 1990, 17 per cent in 1991 and 20 per cent in 1992, according to figures supplied by the Central Statistical Office. These figures include independent agricultural entrepreneurs, their employees, and family members employed full-time on their farms. In 1991, the private sector as a whole probably employed 24 to 26 per cent of the active population.[3]

3 Labour-force has always been the only reliable index of the size of the private sector (all other indices being based on more or less rough estimates). The 1990 data, however, did not include LLCs founded by private persons, a relatively new form as yet, even their number was unknown, and business corporations founded exclusively by foreigners. What we do know is that 230 such companies were founded in 1990 and, according to the data of the CSO, another 493 in the first half of 1991. Of the latter, only a few represent relatively big assets and employ more than 300 people. The majority, like the approximately 9,000 joint companies possess the minimal amount of capital required and have no more than 20 employees.

Table 1. Distribution of active earners by type of enterprise

Enterprise type	1983	1987	1988 Jan. 1	1989	1990	1993
State enterprises and co-ops	95.1	93.2	92.8	91.6	89.0	79.4
Collective ventures[a]	0.3	1.1	1.0	1.1	1.0	2.8
Individual entrepreneurs[b]	4.6	5.7	6.2	7.3	10.0	17.8
of which:						
artisans	*1.8*	*2.0*	*2.2*	*2.5*	*4.9*	*6.3*[c]
retail dealers	*0.5*	*1.1*	*1.3*	*1.4*	*1.6*	*6.1*[c]
farmers	*1.7*	*1.6*	*1.6*	*2.1*	*2.7*	*3.2*
Active earners total	100.0	100.0	100.0	100.0	100.0	100.0

Source: *Labour Force in the National Economy in the 80s.* KSH 1991. p. 20. and *A nemzetgazdaság munkaerőmérlege* (Labour balance of the national economy), Jan. 1., 1993, KSH.

[a] Members of partnerships (e.g., unlimited partnerships, deposit partnerships, working teams, etc. — including employees and family members).
[b] Including employees and members of the family.
[c] Estimated on the basis of tax declarations registered by APEH, the national tax revenue office.

Relevant data suggest that the natural growth of the private sector remained rather slow even after 1982, although it has gained some momentum in the last couple of years. The number of craftsmen increased by 1,168 from 1984 to 1985, and the increases of the following years were 947; 5,090; 6,931 and 10,087 individuals, respectively up to 1989, while the number of employees grew by 1,724; 1,694; 14,237; 17,024 and 17,633 individuals, respectively over the same period. The number of small shopkeepers shows a slow, steady increase (their numbers increased at a greater rate in the course of pre-privatisation). In 1989 4,868 individual entrepreneurs were registered as small shop owners (there is, however, an overlap here with the previous figures). This number increased to 170,000 in 1990 and 225,000 by the third quarter of 1991. In the last quarter of 1993, this number reached 6,855,000.

Practically all social strata are represented in the new entrepreneurial sector, albeit somewhat unevenly. According to a representative survey covering more than 4,000 entrepreneurs which we carried out jointly with the Social Statistical Department of the Central Statistical Office in 1988 (KSH, TS 3-1), most enterprises had been founded by skilled workers (46 per cent) and college graduates (20 per cent), and only 9.1 per cent of the founders had only had an elementary school education or less (see Kuczi – Vajda 1990).

This slowly growing group of private entrepreneurs is rather heterogeneous, ranging from artisans and small family business outlets to the few hundred major private enterprises.

Meanwhile (1988–1990), survey data show that this circle was joined by another 42,000 (60–70,000 with family members) who launched their businesses with the help of the so-called 'New Start' loans granted to the unemployed (MÜM 1991).

One characteristic of this lot is that only 80 per cent of the self-employed pay personal income taxes as their enterprises never seem to make enough to be taxable. This is an important sign, even if it is tacitly understood that admitted turnover is only a fraction of real income, that there is more money there, concealed from the internal revenue office.

There is no doubt that the overwhelming majority of Hungarian entrepreneurs have little or no capital apart from some tools and skills. They are, for the most part, small shopkeepers and craftsmen. In one of my earlier studies (Laky 1987) I called them 'small producers,' as distinct from entrepreneurs, because their aim is to feed the family, to follow the consumption patterns of some model social group and to establish a lifestyle similar to their model's. Their economic role is to satisfy demand in a given sphere by investing capital and labour as required. Small producers react to the changes of demand only in their proper field of activity and within the limits of their existing capabilities (invested capital, established labour structure). Their supply increases piecemeal, so as not to endanger their living. Most small producers aim at stability, not growth, and at winning and keeping the loyalty of enough clients to guarantee their survival. They invest as little as possible into equipment, machinery and the workshop required to secure a stable market position. Competition alone will provoke further investments or the updating of production tools — another prerequisite of stability.[4]

The characteristic features of the typical small producer — not entrepreneur — seem to resist change. At a time of deepening recession, most members of this stratum stubbornly protect their level of income (still somewhat higher than the national average) even at the cost of quasi-explicit tax fraud (e.g., the failure to provide receipts by which earnings can be traced). Besides the state, the other victim of such efforts is the customer. Fraud is flourishing. All the same, the living standard of many groups in this class keeps deteriorating. For instance, there is an overabundance of taxi drivers, the owners of small shops await customers in vain and retailers suffer the consequences of the decrease of demand daily. At the bottom of the class, new agents of the private sector have appeared. Street vendors selling cigarettes, lottery tickets, toilet paper, old-fashioned T-shirts and whatever one can imagine at a discount. The more traditional Gipsy families make brooms with money from a 'Start Up' loan.

The opposite pole of the private sector is represented by the business elite, the founders of prospering private enterprises, the first representatives of a future class of Hungarian big entrepreneurs. Their pictures are often displayed on the front pages of

4 Currently, inflation has a similar effect, as demonstrated by the current wave of reconstruction and modernisation of business premises. Money invested in real estate not only keeps its value but may be recovered with high profit in case the premises are to be sold for one reason or another, for instance, bankruptcy.

newspapers and magazines. Little is known about the business elite, apart from certain popular names and success stories.

As for the size of this elite, two contradictory estimates are available. The first was made at the founding of GYOSZ, the National Federation of Industrialists, a federation which tried to organise proprietors of larger Hungarian private companies — in the 20–30 million forint range. Some 30 such firms were in the registers of VOSZ, the National Alliance of Entrepreneurs. These became the founding members of GYOSZ (*Népszabadság*, August 14, 1990). According to György Matolcsy, on the other hand, big Hungarian capitalists already existed at the beginning of the nineties, mainly as a result of enterprise-oriented processes unfolding in the second half of the eighties: „It [the accumulation of wealth] results from the capitalization of assets exceeding 20 million forints; at present, there are several hundred individual entrepreneurs or families whose total assets are worth more than several hundred million forints." In his opinion, „the most characteristic feature of the accumulation of wealth of the nineties appeared" as early as 1989–90: „a single business transaction such as privatisation, the attraction of foreign capital, trade mediation, the prediction of infrastructural revaluation, etc. could bring big money. By the end of the eighties, big Hungarian capitalists — big in a local sense, of course, below 1 billion forints even among the wealthiest — got their start, with assets worth hundreds of millions of forints falling into the hands of hundreds of families" (Matolcsy 1991). The weekly *Privát Profit* has been inviting entrepreneurs to its exclusive Budapest Ballantine's Club since December 1990. The Club is, according to the advertisement, a „more closed world for those who wish to join the loose community of their equals". The club membership fee was 7500 forints per month (the equivalent of half of the average monthly wage at the time). In the summer of 1991, the Club had some 250 members from every part of the country.

Matolcsy's estimates suggest that there are several hundred big capitalist families in Hungary today whose wealth originated in business, though some of them are no longer active in business. Little is known of their social origins. Some of the most common are such diverse professions as skilled workers, highly qualified professionals and college graduates, people who had, as they say, been close enough to the fire of the first privatisation actions of enterprises to be warmed, yet far enough away to keep from being burned.

The natural growth of the private sector and of the number of entrepreneurs who started their own ventures depends on the quantity of solvent demand. New enterprises cannot be expected to proliferate at times of recession. The present ever more acute sales crisis ruined hopes for the fast growth, most acutely of agricultural enterprises. Meanwhile, the old symbiosis of household and co-operative production that used to strengthen the production potential of state farms is becoming a thing of the past. Of course, other paths may open up. The private sector has, at present, considerable reserves. Some 200,000 people are employed legally, on a part-time basis (not to mention the illegal employees, whose exact number is unknown but must be of a similar order of magnitude), who have been building up their own small markets for years. They will become independent, under the constraints and stimuli inherent to their situation (liquidation of full-time jobs, market volatility, etc.).

Spontaneous Privatisation

The establishment and proliferation of joint-owned enterprises based on state and foreign and/or domestic private capital is related, to a considerable extent, to the so-called spontaneous privatisation of large businesses. As is well known, in 1988 – 89, several large companies profited from the opportunities provided first by the Corporation Act and later on by the Transformation Act by becoming corporations, often to thereby flee bankruptcy. From the very beginning, this only meant a decentralisation of the business — i.e., granting the formal autonomy of its various units and the transformation of its headquarters into a holding, a property management centre. In such cases, the new proprietors included the nationally owned bank handling the company accounts, and some major clients and suppliers, state-owned enterprises for the most part, while the independent sub-sections also became one another's co-owners. Mária Móra was quite right to call this process the 'pseudo-privatisation' of state enterprises. Neither decentralization, nor the appearance of new stockholders altered the fact that, in the final analysis, the owner remained the state (Móra 1990). Several thousand new corporations were established this way.

	1988	1989	1990	1991	1992
Ltd.	116	307	646	1,072	1,712
LLC	451	4,485	18,317	41,202	57,262

Source: *Statistical Yearbook of Hungary*, 1991, 1992, CSO 1993, p. 65.

While big companies were being divided into corporations, quite a few minor jointly owned companies with modest assets were also established. Foreign partners were included wherever possible, or a certain small proportion of the employees joined the corporation, typically a limited liability company, as partners.

According to our data 3,539 jointly owned (capitalist and domestic) business entities were founded in 1990, 90 per cent of them with basic assets in, at most, the 10 million forint range (Source: *Céghírnök*, quoted in *HVG*, April 6, 1991).

So far no data are available as to the relative proportions of domestic and foreign capital, or the relative proportions of state and private capital involved in the companies in question. According to the SPA, in 1993 foreign investors and Hungarians were represented by 6 and 7 per cent, respectively, of these companies' total value.

Although restructuring due to the spontaneous privatisation of state-owned enterprises affects a growing number of companies, it has seldom meant real change in ownership. Without prospective buyers, the corporation structure (mandatory since 1992) has proven to be nothing more than another form of state ownership.

Spontaneous privatisation has provoked a great deal of social controversy. The first pole of these concerned attempts by the members of the old managerial stratum, inseparable from the power structure, to secure positions in the new regime. It was shown in some cases that state and party assets were merged into new corporations, with former party leaders of various ranks at the top. The 'Justitia Programme' of the ruling party in Parliament excited passions and urged the settlement of accounts. Although there are still embers beneath the ashes, and passions could easily be rekindled, the social problem of 'self-transition' has receded into the background to some extent, at least in the mass media.

Other circles proclaiming liberal social values preached soberness, feeling that the losers of the former political regime must be given an opportunity to get along in business life. András Hegedűs, formerly an ardent critic of the economic management 'selected from among the nomenclature' voiced the following opinion: „The term 'self-transition', too, should be used with caution. The efforts of the nomenclature active in business life to keep up their positions with the help of privatisation must be exposed to the larger public. The survival of professional managers, on the other hand, who work efficiently and diligently even among difficult conditions, should be assisted, whether they had been members of the state party or not. In many cases, party membership was motivated first and foremost by the wish to act as efficiently as possible. Why should they be punished for that?" (Hegedűs 1991).

Thus one of the social processes associated mainly with spontaneous privatisation was the quest for business positions by the old power elite. Unfortunately, apart from sporadic examples, so far very little is known of this process affecting so many, although that little concerns the elite itself, if by elite is meant those who occupied top positions in the former party/state/economic apparatuses.

The older generation of top party and state leaders retired to pension. Some politicians of national renown were offered leading positions by international companies and banks, owing to their 'social capital', i.e., their contribution to the peaceful transition, and their qualifications. Others have become MPs in the new Parliament under the colours of smaller opposition parties. The leaders of the biggest companies lost their positions one after the other, because either their old colleagues or the new managers wanted it so.

One way or another, the great majority of the most prominent members of the old ruling elite withdrew from Hungarian public life.

If, however, instead of the elite, one considers other lower-ranking representatives of the old regime, their fate was and is shaped by several other factors: former rank, period of employment in the apparatus, age (many of the 50 plussers fled to pension with age exemption), qualification and, last but not least, social contacts. The disintegration of the old apparatuses and the formation of new parties, offices, banks and especially the restructuring of state-owned enterprises was accompanied by a large-scale redistribution of positions, not in the least on the basis of personal contacts. Moreover, some of those who volunteered for one of the new rising parties (not necessarily as members) were often rewarded with high positions soon after. The majority, however, sought not power but safe existence, and were delighted to vanish in one of the tens of thousands of newly founded small organisations or LLCs, all the more so if their positions were well paid. Of course, there are some who earn a splendid living from profitable small shops or enterprises bestowed upon relatives earlier, but the real power positions are occupied by others. The salvaging of power is less and less of a real social problem. (The Hungarian/Czech/Polish comparative research project directed by Iván Szelényi is expected to yield more concrete results in this respect. Cf. Szelényi I. – Szelényi Sz. 1991).

The other pole of the social debates provoked by spontaneous privatisation crystallised around the issues of employee ownership. Workers' councils above all supported the idea of employee ownership, as opposed to the prospect of 'foreigners', 'managers' or 'just anyone' occupying such positions. The slogan 'democratisation of the ownership relations' and arguments concerning equal chances and social justice were occasionally accompanied by rather uncertain demands. In some cases employees insisted on the autonomy of their unit, but did not mind if it remained the property of the state — they even went on hunger strikes for that — in others they fought for the right to invest their own capital in the LLC or, as in the case of the Ózd metallurgical works, decided, after many vicissitudes, to purchase the whole unit.

Understandably, the massive loss of jobs intensifies the will to buy out the workplace. There are several, far from equivalent forms of employee ownership in present-day Hungary.

The original form of employee property acquisition (introduced after January 1, 1989, i.e., before the change of regime) was the asset voucher issued by state companies and co-operatives, entitling the employees buying them to a dividend. This system had the double aim of increasing company capital and creating long-term employee interest. The issuer was allowed to hand over inscribed stock (not to exceed 10 per cent of the company assets) for free. Although this did happen, sporadically, at some large companies and co-operatives in the course of spontaneous privatisation — we know of no purchases —, its impact was insignificant even for the firms concerned. In 1991, however, parallel with the introduction of mandatory corporation structure, asset vouchers were issued in large quantities. Companies used this form when distributing part of the profit among the employees to avoid high taxes associated with wage increases. Such vouchers need not be licensed by the State Property Agency, they can be distributed freely. This is how companies transformed into corporations create employee shares, although the exchange of asset vouchers for shares must be licensed by the State Property Agency. The asset voucher is, in fact, a salary supplement (if there is a dividend) rather than a form of ownership, since its owner has no proprietary rights whatsoever.

At present, employees may acquire real property by buying out a share of the company unit transformed into an LLC. No data are available as to the extent of this practice, but experts consider it rather small.

In the beginning when, in the course of spontaneous privatisation, big companies transformed units capable of independent operation into LLCs by the dozen, employees in most cases had neither the opportunity nor the means to buy them out. First of all, companies did not offer this option and, second, employees did not feel the need to secure their jobs as co-owners lest they should lose them. The few cases of buyouts occurred, for the most part, in emergency situations when a smaller unit was threatened with liquidation. Our case studies show (Lajtai 1991) that in such cases it was general practice for unit managers to attempt to pursue the old activity in a new, LLC framework, with the assistance of the old team. They were the first to buy out part of the business, and a few of the employees could do the same at the same time. Experience suggests that most companies brought in as initial assets the means of production they had been using and, depending on their value, retained majority ownership as well.[5] (The employees and especially the managers of the LLCs operating successfully try to buy up property shares continuously.)

Apart from some sporadic cases, employees did not seem to be thrilled by the prospect of ownership until early 1991, i.e., the rapid rise of unemployment. Workers' councils did voice, from time to time, the claim of gratis property transfer, but public opinion did not give much support for that. At present, the interest of various groups of workers, motivated by the wish to save jobs, is much more manifest, especially in the case of industrial enterprises that had gone bankrupt and are now waiting to be sold and split up.

So far politicians have supported the idea of employee (co-)ownership with words alone. The largest governing party has been promising the masses of workers a share of the state property ever since the elections. „The state and state enterprises will offer assets, shops, restaurants, maintenance workshops, etc. in great masses to company employees, citizens forced into unemployment and all enterprising members of society",

5 One of the few exceptions — also the most widely known case — was the transformation of the biggest Hungarian telecommunications company, VIDEOTON, that used to employ 20,000 people. In 1989–90, 21 corporations were created out of the company: 3 joint stock companies, 17 LLCs and one joint company. VIDEOTON centre has a 51–100% stake in all new corporations except one limited liability company in which its share is but 14%. Of the 7 million forints in basic capital of this latter, the Precision Tool Engineering LLC, 6 million forints were provided by 230 of the 250 employees of the plant. The biggest single capital share was 150,000 forints (*Figyelő*, July 11, 1991). The workers scraped up the entrance capital from their own savings and from loans by friends and family. Free capacity has been used to provide for foreign orders for years in the framework of enterprise business partnerships allowing more liberal wage agreements. The circle of foreign customers was successfully broadened, and workers were able to pursue their activities as co-owners of the LLC, providing themselves with a good existence. The venture proved a success. Workers could repay the loans and by the summer of 1991 they were able to purchase the property share of the state enterprise as well. However, later on the LLC went bankrupt for lack of capital to renew the assets to keep up with international competition.

read the invitation to the General Election Assembly of MDF, the Hungarian Democratic Forum, in September 1990.

The so-called Existence Credit (the 'E-credit'), invented to create a living by state property buy-out and advertised for years, should have promoted this aim. This form of credit has been available since March 1991 but only in domestic commerce, catering and certain domains of the service sector for the purchase or lease of shop premises. Moreover, as expressed in one of the end of July issues of *Pesti Hírlap*, „The government and the banks managed to 'improve' this construct, announced with such great hubbub and labour for such a long time, to such an extent that, finally, it has become by and large unsuitable for its original purpose." Up to the end of July 1993, this credit was allocated in only 89 cases. By the end of 1993, there were approximately 3000 E-credit contracts. In the same year, the conditions for granting them were simplified to a considerable extent.

One of the obvious gains of spontaneous privatisation was the decentralisation of artificial mammoth organisations and their division into smaller units capable of independent operation, a process that also marked out units and activities suitable to be privatised on their own. This may exert a significant influence on the future structure of the economy.

Its social impact, on the other hand, has been very little, despite the fact that the threats of imminent bankruptcy and massive unemployment made more and more state employees experience hopes and fears and concrete decision-making problems first hand.

As a matter of fact, the only stratum, absent from all previous hypotheses, whose living conditions improved very radically thanks to spontaneous privatisation, was the professional intelligentsia whose members, instead of turning into proprietors, are now employed by the 'new' business entities. However, since they are also affected by the other, state-managed, privatisation processes, the characteristics of their new situation will be discussed later on.

Privatisation Managed by the State Property Agency

After 1990, the privatisation of state property became the task of the newly founded State Property Agency (SPA). In 1990 and 1991, the Agency decided to sell 15 and 20 companies, respectively, on its own initiative, if possible to foreign investors. Moreover, the control and approval of all enterprise-initiated privatisations exceeding a certain value was also assigned to its authority in order to eliminate the corruption factor involved in spontaneous privatisation.

The results of this over-elaborate process fell short of expectations.[6]

Practically all political parties urged the acceleration of the process. The largest opposition party demanded 'the privatisation of privatisation', that is, the replacement of the exclusive rights of the State Property Agency with the self-privatisation of enterprises via small asset appraisal agencies. The only achievement, however, was that approximately 300 of the smallest organisations were selected to intitiate their own privatisation with the assistance of financial consulting firms appointed by the State Porperty Agency. Larger companies may also prepare their own privatisation which, however, will have to be supervised by the Agency in the future as well.

Besides 'large privatisation', the State Property Agency is also responsible for 'pre-privatisation'. Even as it took power, the new government announced in its National Revival Programme that it would hand over state-owned commercial, catering, hotel and consumption service units suitable for independent operation to private owners or enterprises, even before the large-scale privatisation of the firms in question. The relevant act was issued in September 1990.[7]

Up to May 1991, the Agency advertised only 340 of the thousands of qualifying shops, and only 186 of these were actually handed over to private owners or tenants. The aforementioned Existence Credit was later granted for the purchase or lease of shops put up for bid at public auctions.

The licensing of employee stock ownership at companies transformed into joint stock companies is yet another instance of SPA managed privatisation. Social groups supporting the demands of certain organisations (such as workers' councils) and most political parties agreed, at least in their pre-election promises, that it was essential that privatisation should transfer part of the state assets to the workers.

However, public opinion and often even the most ardent supporters of the idea seem to ignore what exactly workers would gain by that.

Real options are defined by the so-called Property Policy Guidelines approved by Parliament and issued in 1990, stating that a maximum 15% of the total enterprise assets can be transferred to the employees in the form of preferential shares. Preferences

6 The report of the State Property Agency presented to the government in mid-1991 states that the privatisation of approximately 3 per cent of state property is 'in progress.' One evaluation of the report points out that despite the many references to privatisation affecting state assets worth hundreds of billions of forints and hundreds of companies, „data show that, since its establishment, the SPA could only relieve the state of assets worth 25 billion forints (spontaneous privatisations carried out with the contribution of the Agency included), representing hardly more than 1 per cent of the total of 2 trillion forints in assets awaiting privatisation" (*HVG*, July 13, 1991). The First Privatisation Programme of the first 15 companies generated a budgetary income of only 600 million forints, instead of the 40 – 50 billion desired and planned for in 1991, primarily on the basis of this programme (*Népszabadság*, August 27, 1991). At the end of 1993, as previously mentioned, 13 per cent of the state property was sold to new investors, 14 per cent went to the local governments, and 73 per cent remained under SPA control, waiting for buyers.

7 Act 1990: LXXIV on the privatisation (sale, utilisation) of state companies operating in retail, catering and consumption services.

may relate to the price (the employee may buy cheaper than the nominal value) or the payment schedule (instalments). Enterprises may also request to have their previously issued asset vouchers transformed into shares. The quota of preferential shares, and price and payment allowances as well, must be licensed by the State Property Agency.

The Agency evaluates such enterprise requests one by one, in the form of single, customised procedures, or rather bargaining processes. The Agency reported to the government that 20 joint-stock companies were granted preferences by mid-1991. (The list is not complete; some lesser cases are omitted.) Four of the twenty cases concerned the transformation of asset vouchers, the rest the licensing of new shares for newly founded joint-stock companies.

In the twenty cases in question, various price allowances (ranging from 10 to 50, 60 and even 100 per cent of the nominal price) were requested for stocks equalling 1.15 to 16.3 per cent of the basic assets. The most frequent case was 'two for one', that is, one bought the share at 50 per cent of the nominal price, with additional part-payment options (e.g., 10 per cent of the nominal price in one sum, the rest in instalments over three years).

It would be premature to evaluate employee stock demand as yet. Free shares are obviously welcome, and exceptionally cheap ones, too, are bound to be popular. According to one of the case studies, at a company where employees were offered shares for 10 per cent of the nominal price with a down payment of 3 per cent only, nearly all of the estimated 3500 employees — 3481 — bought some shares for 900 – 1800 forints each at a nominal price of 30 – 60,000 forints. In the first quarter of 1991, the gross average salary was 12,549 forints/month in the given branch. In another case, however, the employees did not buy the total quantity of shares offered at a nominal price of 10,000 forints, despite a 50 per cent discount and the possibility to pay in instalments over several years. The company offered a total of 30,000 shares to its employees, maximum 5 per person and pensioners maximum 3 per person. Despite the allowances, no buyer was found for about half of the shares offered for sale (Lajtai 1991).

This form of employee stock ownership is expanding — parallel with the introduction of the obligatory corporation structure — especially at big companies where employees would have no chance to possess more than a few shares' worth of assets even after decentralisation.[8]

Trade unions have recently urged the expansion of preferential stock acquisition by employees, voicing the latter's fear that (foreign) investors would buy the company out

8 Despite lengthy preliminaries, at the end of 1991, the other form, the Hungarian version of the internationally adopted ESOP, Employee Stock Ownership Program (MRP, Munkavállalói Részvénytulajdonosi Program) is not ready as yet. It was introduced at the end of 1992, and by the end of 1993 some 60 firms had been sold that way. It is an essential feature of MRP that it would require the consent of more than 50 per cent of the employees and, moreover, that preferential credits would be granted for the purchase of stocks and the whole process would be managed by a fund created for this very purpose.

from under them. Many of the employees hope to buy security by buying stock — an illusion, since stock ownership guarantees no protection at all.

As can be inferred from the above, the primary target populations of the various state managed privatisation processes are not identical. Although so far all actions have been rather moderate, their social impacts are multifarious. I will describe some of these in the following.

a) The presence of foreign owners has altered the relative positions of the various employee groups to a considerable extent.

Companies in full or majority foreign ownership set out to cut surplus staff within a period of a few months. In doing so, they obey the company's own regulations which do not necessarily coincide with Hungarian labour law. Although so far such reductions have not played a significant part in the increase of domestic unemployment, especially because of the small number of companies transferred to foreign ownership, the predicted growth of the number of foreign owners provokes controversy.

This is all the more true since, quite often, the position of the remaining staff is also rather ambiguous. No doubt, ownership transition usually implies higher living standards, better work at a faster rhythm for more money, often much more than before or at the other, state-owned, Hungarian companies around. However, certain companies can and will do things prohibited by law in their native countries, like preventing the formation of a trade union. In matters of privatisation, Hungarian trade unions occupy a marginal position anyway (Neumann 1991). Our distance from the ideals and norms of European social partnership has increased ever since privatisation began. Strangely enough, even those who are personally concerned are incapable of safeguarding their interests in an organised way and of making themselves accepted as equal partners. Human values and rights associated with 'Europeanism' are easily overshadowed as yet by higher-than-average incomes (for more and harder work) or simply the wish to keep one's job.

The situation of Hungarian managers employed by foreign-owned companies is roughly similar. One case study analysed managerial practice at six Austro-Hungarian joint companies. In one company, the Hungarian managing director had had no employment contract for two years. In another, the contract of the Hungarian managing director consisted of two lines summing up all of his duties and rights. In a third case, bonus conditions were not regulated and, at the end of the first year, the Austrian director decided that Hungarian managers would receive no bonus at all (Bakcsi 1990). Of course, managers keep silent the same as workers do, afraid of losing an income that is higher, in some cases by an order of magnitude, than that offered by Hungarian firms.

On the other hand, foreign owners, too, have reason enough to complain about the conduct of Hungarian workers and managers alike, as witnessed by the fact that, according to the report of the Ministry of Industry and Commerce published in 1991, more than one third, i.e., 525 of the 1436 Hungarian industrial enterprises based on foreign capital, ended 1990 with a deficit. According to the Ministry, however, that warrants no far-reaching conclusions, given the fact that a significant proportion of the newly established enterprises tend to incur losses in the world overall (*HVG*, May 11, 1991).

One of the main victims of privatisation is the redundant worker or employee — and, of course, reductions are expected to continue at companies taken over by foreign owners. This may affect the Hungarian technical intelligentsia, too, if the new owner bought the company to find cheap labour and maybe new markets for its own developed products and cancels local R + D projects.

Still, so far the impacts of large-scale privatisation are but hints affecting only a few people. With the spread of privatisation, however, its effects are bound to to be felt.

b) So far the other SPA managed privatisation process, pre-privatisation, also appears as a threat to commercial employees, as they have reason to fear that new owners will not renew their contracts. They will most probably be the real losers of the actual change-over and, given the fact that the overwhelming majority of this group consists of women (339,000 of the 517,000 commercial employees are women), reductions will hit them hardest. So far this fear has not been realised. The commercial sphere is one of the few where the number of employees has grown despite the rapid growth of unemployment overall. The winners, on the other hand, are those who are capable of bidding, owning as they do enough private capital and enough assets to serve as a credit guarantee. Data suggest that the acquisition of shop premises or their lease so far involved a few hundred buyers capable of and willing to invest in an enterprise.

Pre-privatisation, however, already forecasts a more intensive differentiation of the formerly homogeneous stratum of tradesmen and commercial employees. Of course, there had been differences before, too, among the employees of state and private commerce alike, but these are growing faster than ever now owing to the inequality of opportunity. Thanks to their financial situation, some will profit from the opportunities of privatisation, while others will be excluded.

c) The presumed effect of employee stock ownership, i.e., of the proprietary status, is negligible. The possession of a few shares means ownership proportionate to their value. The prospect of stock-based profit is also negligible. Profit and dividend are both rather uncertain given the present decline of the economy and growth of inflation.[9]

So far the only social impact of employee stock ownership is the creation of yet another source of conflict between employees and managers. The enterprise regulations of preferential stock purchase usually give managers 'favourable treatment'. It is a common practice that employees are entitled to purchase stock in proportion to the number of years they spent with the company, whereas the managerial quota is defined as a function of the basic wages. In one of the investigated cases, this meant that while half of the employees could buy no more than 3 to 5 shares, and only 1.2 per cent

9 Our case studies suggest that savings, bonds, securities, etc. with predictable and guaranteed interest rates are more secure investments for employees than the dividend of stocks of uncertain yield, however attractive their price and purchase conditions — especially if the fiscal year ends with a deficit instead of a profit.

16 – 19, the director was entitled to about 51 (the equivalent of six times his basic wage), the business manager to 39 and plant heads, foremen, department heads to from 6 to 12 (equal to three times their basic wages) (Hóvorka 1991).

Managerial preferences would probably generate conflicts at most companies, even if the employees did not intend to buy their shares. Managers are most likely to purchase the whole amount offered to them because at their income level this implies a significant tax base reduction, a negligible criterion for most employees.

This conflict is expected to prevail in the future, too, although its context may change, for the government intends to limit the scope of preferential employee stock allocation. The 1992 guidelines of privatisation, still subject to debate, would decrease the proportion of employee stock to 10 per cent (in exceptional cases 15%) of all company assets. According to these new principles, stock cannot be allocated for free. Purchase preferences must be integrated into a single, coherent system and must not exceed the total annual basic wage of the employee (*Figyelő*, July 4, 1991).

The various privatisation processes opened up very promising prospects for a well-defined social group, namely the highly qualified young professional intelligentsia fluent in several languages. As quoted above, Szelényi calls them the 'comprador intelligentsia'. In his opinion, one stratum of the 'new bourgeoisie' consists of „foreign entrepreneurs and members of the professional intelligentsia joining their ranks and obtaining highly profitable jobs at the newly established joint companies." As opposed to the comprador bourgeoisie, their function is „not to assist the national accumulation of capital, but to represent the profit interests of foreign corporations — a most rewarding task" (Szelényi 1990).

The label itself, i.e., the 'comprador' status of the stratum in question, is a matter of preference. In my opinion, however, there is no need to qualify the capital entering Hungary now as 'colonialising' or call the employees of international firms its 'servants.' These terms sound rather strange in present-day Europe.

This, however, is but a matter of labelling. Szelényi no doubt identifies an important social process. Hungarian offices of foreign companies have multiplied in the past two to three years. Large firms of international renown offering infrastructural and business services, such as assets appraisal, enterprise management, investment, PR and counsel, moved in accompanied by famous foreign companies (not many, though) purchasing majority ownership in Hungarian companies, with top executives delegated from their native countries. Both new circumstances and higher wages make Hungarian employees conscious of the influx of international business. Although their income calculated according to the domestic price and wage systems is usually somewhat lower than corresponding wages in the home countries of the companies, job advertisements usually offer several times the normal average wages of members of the Hungarian professional intelligentsia.[10]

A few thousand Hungarian experts are thus living on an income similar to that of business managers and technical employees in the developed countries, and are given a chance to study at the parent company and make an international professional carreer.

The growth of this group, together with the college graduate entrepreneurs managing the already successful private and collective enterprises, indicates a revaluation of high quality specialised knowledge in several areas. Knowledge is an asset that plays an ever greater role in international business and is finally gaining ground in the Hungarian economy, too (Kuczi 1991).

This phenomenon, however, is more general than the partial effects of privatisation affecting one social group or another. The process of the general revaluation — or rather correction — of expert knowledge has accelerated to the extent that it broke through the barriers of income distribution, levelled and kept very low artificially, and led to the acknowledgment of the value of learning, knowledge and academic degrees in a financial sense as well. True, this process is most controversial. So far it has only manifested itself in business life and does not affect those who mediate this knowledge and teach professional and non-professional culture and philosophy. Neither does it distinguish between employees of private enterprises and state-owned companies in the world of business.[11]

The financial situation of a broad and still widening social group has improved significantly, allowing them to lead a new way of life. It remains to be seen whether this state of affairs will prove lasting. The income gap, however, will certainly not close again, and the inequalities characteristic of the developed market economies are expected to keep increasing and become permanent. The solution is certainly not a return to the previous stage, but the rational redistribution of social burdens.

10 „Your efforts will be compensated with a yearly income of 30,500,000 forints and other benefits normally associated with an international firm"; „The successful candidate will receive thorough training abroad and a starting income of 2 to 3.5 million forints annually," the advertisements go.

11 The incomes of managers in the state sector have been rising for years now, irrespective of the business results, dragging behind them the salaries of the technical staff. In the case of new, decentralised but still state-owned corporations, especially the ones beyond the reach of central wage regulation, salary increases are always justified by the income patterns of the private sector. The clerks of banks and ministries in the state sector also have a relatively high income on this basis.

Reprivatisation

This issue has become a battle-ground for the most controversial arguments. Extreme opinions are associated with more or less well-defined social groups, ranging from those who insist on compensation for their former property to those who, although they do not deny the moral validity of this claim, oppose it because of the burdens it would impose on younger generations. There is no need to list all the pros and cons of the case. The fact that Parliament reached a weak compromise, unsatisfying to all, did not help resolve the conflict between justice and feasibility.

Given the fact that this process is in an embryonic stage as yet, it is impossible to foretell its social consequences or calculate its positive and negative social effects. One cannot exclude the possibility, however, that its impacts — advantageous to some and disadvantageous to others — will affect more than all former privatisation processes taken together.[12]

Some Closing Remarks

No doubt, the crucial issue of social and economic transition is the transfer of state-owned productive capital to real owners. From an economic point of view, privatisation means the appearance of masses of independent decision-makers, a multitude of social agents whose non-stop business decisions based on market calculations establish what Kornai calls 'market coordination' (Kornai 1983). Market coordination is just that, the non-stop series of individual decisions, adapted to the behaviour of other market agents, taken as a function of the actual supply and demand conditions determining whether one should buy or sell, develop or cut back, invest or withdraw capital, etc. The bureaucratic coordination mechanism governed by official decisions, i.e., the characteristic decision-making mechanism of the planned economy, a model that differs fundamentally from the market economy, can only be replaced after this has been established. Privatisation, the handing over of state-owned productive assets to responsible owners, is indispensable for that.

The social formula of privatisation, however, is less clear-cut and obvious than the economic one. Privatisation appearing in so many forms and carrying so many meanings will gradually restructure social relations in depth. The fates of hundreds of thousands, families and individuals, will change course. They will move up or down the social ladder, to use unemotional professional terminology, to end up in new social strata, while the basic structure of society is being transformed as well. Now, at the beginning of the process, one can only hope that transition will be feasible without serious social upheavals. And even if social sciences are incapable of predicting the real nature of the outfolding processes, they must attempt to provide an on-line analysis of their actual social effects.

12 One of the unforeseen effects was that workers sold their shares — sometimes whole firms that were bought by ESOP — right after a buyer was found. They seem to prefer cash to the promises of the future.

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