

# POLICY ACTORS AND POLICY MAKING IN CONTEMPORARY HUNGARY

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## **The Theoretical Debate.**

An influential view in contemporary academic writing is that the radical transformation of the economic systems of ECE, and the ensuing integration of those countries into the market based system of the European Union, provide evidence in support of theories of globalisation that stress how modernising countries have to conform to the trends of the global economy. Moreover, the experience of ECE is taken to show that the modern state is relatively weak in the face of the tendencies towards globalisation in the modern world economic system. A wide-ranging debate has emerged around this general question, within which at least three different arguments may be identified.

- i) In one version of the globalisation thesis, it is argued that the modern state has lost its capacity to manage the economy in what has become an increasingly 'borderless world' (Ohmae 1990).
- ii) By comparison with this view, the idea of the 'competition state' accords a more active role to national governments, but still one that sees it in a subordinate role, as the agent of globalising forces. In this view, although governments are very active, in terms of executive decision making and perhaps also negotiation of policy outcomes with other actors, this only provides the means by which global forces have their effect at the national or local level. The state, it is argued, achieves success by becoming the 'competition state', competing for investments in the global market and adopting neo-liberal economic policies in order to make its national economy competitive (Stopford and Strange 1992; Cerny 1993).
- iii) In contrast to both of these two views however, a third view argues that governments actually still exercise more freedom of action to shape institutions and make policy than is allowed for by the 'competition state' approach. Rather the state should be seen as a 'developmental state'. In this view national governments do not simply take their cue from international organisations or accept neo-liberal arguments; instead they play a central role in making domestic policy, sometimes in ways which depart from the prescriptions of neo-liberal principles (Wade 1990; Evans 1995).

On the whole, the 'developmental state' approach has not been supported by many researchers working post-communist transformations in Eastern Europe. However, a recent article by Hanley, King and Tóth (2002), focusing on privatisation in Hungary, is notable for the way it draws on and adapts the 'developmental state' approach of, for example, Peter Evans. They argue on the basis of their case study that governments play a significant role in economic policy making in the context of a contest with international agencies and organisations. Within such competition national governments

sometimes 'concede' to international interests but at other times they support the development of domestic companies and create the conditions for domestic capital accumulation. Hanley et al. argue that Hungarian governments after 1989 were partially successful in promoting the 'domestic accumulation of capital by subsidising the sale of state enterprises to private parties' (2002: 145). However, this brought them into conflict with international agencies who demanded the opening up of Hungarian companies to foreign investment. The outcome was the making of a new capitalist economy based on a mix including enterprises sold to foreign investors and Hungarian domestically owned businesses. In some cases the Hungarian government had to back down in the face of international pressure but government officials did not play the role of 'suits' to foreign capital. In other cases 'the privatisation process itself has provided state actors with new means of shaping economic developments' (2002: 162).

Hanley et al. identify three stages to the Hungarian privatisation process.

1990-1992. In this early period, just after the end of the communist regime, there was a need for revenue to alleviate the very high international indebtedness the new Hungarian state had inherited. However, at this stage there was relatively little domestic investment capital available. In these circumstances therefore, the priority for the government was to sell state enterprises to foreign buyers, thus contributing to Hungary's position as the leading country in attracting foreign direct investment (FDI) in the early years of the transformation in ECE.

1993-1994. Following the initial wave of sales to foreign companies there was mounting criticism in Hungary, not least from supporters of the government who drew their electoral support from conservative and nationalist voters, especially from the provinces. In this context government policy swung away from favouring international investors and towards the subsidised sale of enterprises to domestic interests.

1995-1997. The swing towards policies favouring domestic investors produced an inevitable backlash from international agencies and foreign investors, leading to a suspension of aid from international agencies and a lowering of Hungary's international credit rating. This coincided with the 1994 general election which brought a coalition of the Socialist Party and the Free Democrats to power, both parties favouring a more liberal economic policy than the outgoing government. This led to a return to policies favouring international investors.

The outcome of these policy swings was that, during the crucial period of the economic transformation in Hungary, a new capitalist economy was built on a mix that included both enterprises sold to foreign investors and native Hungarian owned businesses. Thus, in terms of the debate about the role of the state in relation to globalising processes, the Hungarian state could be seen as playing a more complex role than one described simply as a weak state or as a competition state. For Hanley and colleagues it was closer to the model of the developmental state. While the Hungarian state had had to back down to international pressure, government officials did not generally play the role of 'suitor' to foreign capital. The 'privatisation process also provided state actors with the means of shaping economic developments' (p.162).

A major significance of the approach of Hanley et al. is that it challenges us to explore in greater detail the role of national governments in economic change. In this sense it has much in common with approaches that attempt to understand policy making in terms of 'state effectiveness'. In this view the state is seen as a dynamic actor and the key relation is between the state and other influences, such as globalising influences or domestic institutional legacies from the past. Dynamism stems from leadership choices within the state in plotting a course between global and local influences. A good example of this approach, specifically in relation to telecom development in Hungary, is offered by Nørgaard and Møller (2002). They argue that telecom development should be seen as an important success story in post-communist economic transformation in moving from a situation where the telecom infrastructure was quite inadequate at the end of the 1980s to a situation where it is now 'one of the most advanced in the region'. In order to explain this development they argue, the main question is whether Hungary's new telecom institutional structure answered 'a universal standard of telecom institutions that provide superior outcomes in any context (the globalist-institutionalist argument)' or whether it had more to do with the development of 'institutions designed in such a way that they "fit" into the local context (the localist-institutionalist argument)'. On the basis of their analysis they suggest that both arguments are relevant for explaining Hungary's development but that legacies and leadership choices must also be recognised as important influences.

These approaches offer important insights in that instead of referring to abstract trends or evolutionary processes, or the impersonal influence of globalisation on international organisations, they introduce the idea that policy change was carried out through relations between actors (albeit collective actors) in a situation of contest in which neither side is successful if achieving all their aims. However, these views are still pitched at a high level of abstraction in terms of relations between only two key collective actors – the state and international agencies. While these approaches generate some important insights respectively into the processes of privatisation and modernisation in Hungary, it is argued in this paper that they are still too abstract and miss important aspects of the way transformation took place and in the way policy was made. In order to take this further we need first to deconstruct the state and international agencies into different 'component' policy actors that make up these larger blocs of interests, and also to understand them all in their inter-relations with a wider range of social and local business actors. Transformation has not only involved the changing relations of national states to international environments and institutions, but it has also involved the changing relations between state and society at the national level.

Secondly, we need to take account of the changing context within which the wide range of potential policy actors operate and compete as the process of transformation unfolds. As the processes of privatisation, liberalisation and new institution building gathered pace they changed the institutional environment within which politics was conducted. These processes also enabled the entry of new actors into the arena, just as it undermined the effectiveness of others. In particular, as will be argued below, privatisation and foreign direct investment, both key aspects of the transformation process, brought

foreign and international policy actors into the national political arena. After the first stages of transformation, their interests were pursued within national politics alongside those of domestic actors.

In this paper these themes will be explored by focusing on one area of economic policy making within Hungary's broader post-communist economic transformation: the case of telecom reform, and within that on policy regarding landline services. This provides an interesting case because of the importance of telecom reform for international market competitiveness and the active role of multi-national companies and international agencies in promoting new ideas in this area. As will be noted below, policy making in this area was characterised by a significant amount of pressure politics from different interests within Hungarian government, the business community and wider social interests. Significant policy actors included different international financial organisations, international companies, different government ministries, different EU institutions, the transformed former state institutions in the industry, Hungarian small business investors, industrial managers, professionals whether as individual experts, advisors or in consultancy companies, political parties and factions within them, successive government politicians, civil servants and local government authorities.

In the following sections of this paper, after a brief account of the politics of post-communist privatisation in the Hungarian telecoms landline sector, we will attempt to trace the development of telecom reform in Hungary over time as mediated through the relations of many of the above-listed actors. In each case there were contests between different policy actors for influence over the reform process and its outcomes, and these different contests produced different outcomes that provided the context for the next set of contests. Also of particular relevance for the story of Hungarian telecom reform was the changing context created by Hungary's decision to apply for EU membership. This shifted the terms of the contests from simply economic transformation to create a new telecoms sector compatible with a market economy, to a concern to conform with a complex set of requirement regarding regulation and competition policy that were brought into consideration by the accession process.

## **2. Policy Change in the Hungarian telecom sector, 1989-2001.**

As in many countries until the 1980s, the telecoms sector in Hungary was administered along with broadcasting and postal services under a single government ministry. In Hungary's case however, the first administrative change came in 1989 when the three different functions were distributed to three separate service providers: the Hungarian Telecom Company (Matáv), the Hungarian Broadcasting Company, and The Hungarian Postal Service. After the 1990 election, responsibility for telecoms was transferred to the Ministry for Transport, Telecommunications and Water Management (MTTWM). The corporatisation of Matáv was completed under the first post-communist government led by József Antall's Hungarian Democratic Forum in July 1991. The company became a joint-stock company, at this stage still wholly owned by the state. However, its new organisational form now made it available for privatisation as Hungary's first post-communist government began to consider which companies to transfer into private hands.

It quickly became clear that there was a wide degree of consensus that telecoms should be a priority area for privatisation and that this would require a degree of foreign investment. Telecoms had been starved of investment under the old regime's priority for heavy industry. The requirements of the development of commerce and a market economy, as well as the development of an effective state infrastructure, now meant that the modernisation of telecom was a priority. Furthermore, it was a sector that was easy to sell for good money with an obligation on the new owners to invest more in order to carry out really expensive technological developments. The scale of such investment would have been beyond the scope of domestic investors and the government's budget. Domestic investment resources had shrunk as a result of the post-transition recession and Hungary had high levels of foreign indebtedness and had to pay rather heavy debt services. The groundwork for a partial privatization of Matáv was laid by embarking on a programme of network development, for which funding was raised in the form of the issue of commercial bonds, and also through development loans, especially from the World Bank and the EBRD. As a result, by 1993 over half a million new telephone lines had been installed. At this stage Matáv also set up some subsidiaries and joint ventures to carry out such activities as further network construction, international links, and in summer 1991, with the founding of Westel, a joint venture with US West, it established the first (analogue) mobile telephone service in ECE. Meanwhile, further legislation had paved the way for the partial privatisation of telecoms in 1993. In 1991, a new Act on Concessions set the legal terms by which operating rights could be granted to non-state companies. This was followed by a policy document setting out the government's strategy on granting concessions for the provision of telecom landline services.

The initial privatisation of telecoms was introduced by the Telecommunications Act, which was passed in November 1992, and became law in July 1993. Bids were invited for a minority stake in Matáv and 14 different companies applied. Four of these were then short-listed for a second round. The outcome was that a German-US consortium, MagyarCom (made up of Deutsche Telekom and Ameritech) acquired a 30.1 per cent share, along with operational and financial control of Matáv, for the sum of USD 875 million. In the same year licences were granted to private companies for the newly expanding mobile phone sector to Westel 900 (43% owned by Matáv and 49% by US West) and to Pannon, owned by a number of Scandinavian and Hungarian companies. By the end of 1996 Hungary was fully covered. In 1999 a third provider, Primatel, was granted the right to provide digital mobile services.

According to the new law, Matáv retained its monopoly over the national network for long-distance and the international landline markets. There was a strong incentive for the government in this since it would enhance eventual privatization prospects and thereby the likely revenue to the government from privatization. However, (uniquely in the region) Matáv's monopoly in the provision of local services was removed. Local concessions were put out to tender if a majority (50%+1) in a local authority so decided, and Matáv was allowed to bid on equal terms with competitors. Hungary was divided 54 'primary' districts as regards the concessions for operating telecom. Districts where no rival application was received remained in the hands of Matáv. Bids were received for 23 of the eligible districts, 8 of

which were awarded to Matáv and 15 to independent operators, predominantly US and French-led consortia, some to local government companies (in a number of cases with a foreign partner). In the end Matáv gained control over 39 local networks representing an estimated 80% of Hungary's local telephone market (Canning, 1996). Usually, according to one respondent, a representative of the alternative providers, these were in the most profitable areas.<sup>1</sup> The concessions were granted to the successful companies for 25 years, the first 8 of which entailed exclusive rights.

Under the new law different general functions were given to two different bodies, each of which was responsible in turn to the Ministry which itself had overall regulatory responsibility for formulating and implementing policy and regulating prices.

a) the Communications Supervisory Authority (HÍF) was a regulatory body responsible for issuing licences for the provision of telecommunications services; and

b) the Telecommunications Conciliation Forum (TÉF) had the function of protecting consumer interests and liaising between national and local government bodies, industry representatives and consumers, and arbitrating in case of disputes between them.

After the 1994 elections a Socialist-Free Democrat coalition government came to power, bringing new approaches to privatisation policy, and this resulted in further debates about the privatisation of telecoms. The main argument concerned the question of whether MagyarCom should be encouraged to increase its share in Matáv, or whether there should be a public offer of shares or a stock market flotation to allow smaller (and perhaps local) investors a share. Opinions were divided both within the government and outside. Within the first option, there were also differences between MagyarCom and some in government about the terms on which MagyarCom might take on a majority shareholding in Matáv. In the end, reflecting majority opinion within the new government in favour of sales to large foreign investors, it was decided to allow MagyarCom to buy a further 37 percent of Matáv shares. With the detailed running of telecoms now lying outside the state sector the government then moved to improve the advice available to it on telecoms and to strengthen the regulatory body. In 1996 the National Council for Communications and Informatics (NHIT) was set up as an advisory body to the Government, and in 1997 a government decree extended the scope and independence of the HIF. Also in 1997, the story of the privatisation of Matáv was brought to a close with the sale of the state's remaining shares to private investors on the stock exchange. Finally, in 2000, Deutsche Telecom bought Ameritech's (now SBC Communications) 50 percent holding in MagyarCom to become its sole owner. The government continued to hold a 'golden share' which enabled it to intervene where necessary for national economic, political and security reasons. The 'golden share' also gave the government the right of approval if the Matáv board were to decide to sell or transfer more than 10% of its stake.<sup>2</sup>

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<sup>1</sup> Interview with a representative of an alternative provider company, Budapest, 2005.

<sup>2</sup> Since this was against EU regulations, Hungary (and the other new member states) were later compelled to abolish their golden share arrangements.

Meanwhile, although the privatisation of Matáv was complete by the end of the 1990s, and it might be assumed that issues of the capitalist transformation of the Hungarian telecoms sector had all been resolved, new issues arose in the late 1990s concerning the extent to which the privately owned telecom sector had been fully liberalised. The main factor that brought this question onto the policy agenda was the EU's telecom directive of 1998 which called for the breaking up or limitation of national telecom monopolies within EU member states and the encouragement of competition between providers. (At that time Hungary was expected to adopt a similar legislation, but it was not necessary to introduce all provisions well before joining the EU.) As a candidate country for EU membership, Hungary was advised to adopt the EU directive as part of its preparations for membership and the European Commission allocated some funding and legal expertise to assist the ministry.

Under the Fidesz-led government that was elected in 1998, a working group was set up within the MTTWM. Much debate followed and numerous drafts of a new act were produced before a new Unified Telecommunications Act was passed by Parliament in 2001. The Act replaced previous legislation on broadcasting and telecommunications, further increasing the independence of HÍF as a regulatory body and created the framework for the liberalisation of the telecom market. As part of this new framework, local area monopolies were brought to an end ahead of the previously agreed schedule, newcomers were allowed to compete within each area and the main service provider in each area was obliged to give newcomers access to the telephone network. In compensation for this, incumbent providers were allowed to charge 'connection fees' for making network space available. In the course of the debates and preparatory work on the new act three institutional changes took place concerning the place of telecoms within the structure of the government. In particular, in July 2000, responsibility for telecommunications was transferred from the MTTWM to the Prime Minister's Office.

The 2001 Act was not the end of the story. After the 2002 elections a new Socialist-Free Democrat government set up a separate Ministry of Telecommunications and, in response to a new EU directive, decided further legislation was necessary. The aims of the new act, which was passed in 2003, were to further harmonise Hungarian regulations with new EU regulations, to further promote competition, to maintain the growth of internet usage, to improve services, to create free choice of provider, number mobility (portability?), to gradually decrease the cost of internet services, and in the long term to reduce telecom prices as well. The act also created a new regulatory body, the NHH to replace HÍF.

Thus, during a the period between 1990 and 2003 Hungary transformed its telecom sector from one regulated, administered and owned by the state to a sector in private ownership that encompasses the institutions necessary for a liberalised market and a legal framework compatible with EU standards. At the same time however, it still bears the marks of the initial strategy of market transformation that was adopted in the early 1990s, which involved postponing full liberalisation until after privatisation of the main incumbent service provider and the awarding of generous concession conditions that maintained a heavily monopolised market. As will be shown below, these initial conditions provided the context in

which further policy changes pursued by the government met challenges from powerful interests in the sector that the initial reform strategy had done much to create.

### **3. Competing interests in the making of Hungarian telecom policy.**

The outline above seems to tell the story of a smooth incremental process. However, in fact it was characterised by a number of controversies and differences of interest. These arose over a range of issues including the design of regulatory institutions for the telecom sector, the development of the mobile telephone sector, as well as more technical issues. Competing interests were at work and pressure was exerted from various directions in the making of each of the main pieces of legislation affecting the telecom sector, in the 1992, 2001 and 2003 acts. However, in this section discussion will be confined to some examples concerning issues of privatisation and liberalisation, especially relating to issues of privatisation in the 1990s and issues of liberalisation in the preparation of the 2001 Act.

#### *3.1 The 1992 Telecommunications Act.*

The final version of this act was the outcome of a compromise on the key question of Matáv's monopoly as the national services provider. Early drafts, reflecting the influence of the Matáv lobby, as well as significant interchange of staff between Matáv and the ministry, envisaged very little market competition within Hungarian telecoms and granted Matáv a monopoly as the service provider. (Competition, it was assumed, would occur only in subsidiary value-added services.) However a debate then arose and continued for several months as arguments for greater liberalisation and competition between different providers of telecoms services were pursued. Among those lobbying for greater competition were various neo-liberal economic consultants and advisors, some representing international organisations including the World Bank, and opposition politicians in the Free Democrats, as well as some Socialist party members.<sup>3</sup> As far as national and international telecom services were concerned, these arguments were unsuccessful, but a more effective lobby emerged for the provision of competition for local services. This could be seen an early sign of the swing against a focus on sales to international investors that got under way more strongly in 1993 as the government came under the influence of nationalist and populist views from their own main constituency in the countryside. According to Prössdorf (1997), the emphasis in the arguments for granting concessions to smaller companies and local authorities probably had to do with pressures from interest groups formed by companies and inhabitants of rural areas where telecommunication infrastructures were extremely underdeveloped. However, another influence came from insiders in the telecom industry who had begun to go for training in the USA in the late 1980s, some of whom had been influenced by the idea of the 'baby bell' companies.<sup>4</sup>

In the larger scheme of things the decision to allow local concessions did not lead to the emergence of any significant rivals to Matáv, but for an understanding of the politics of telecom reform, the decision

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<sup>3</sup> Interview with a leading businessman and consultant, Budapest, 6 June, 2006.

<sup>4</sup> Interview with academic expert on telecom policy and former Matáv employee, Budapest, April, 2005.



to allow any competition was important. Privatisation and the attraction of investment income from abroad were higher priorities for the first post-communist government than the creation of conditions for competition within particular sectors of the economy. While liberalisation was recognised as an important aspect of economic transformation, alongside privatisation and the withdrawal of the state from direct management of the economy, the main emphasis was on achieving the framework to promote competition within the economy as a whole rather than necessarily within particular sectors (Cox & Mason 1998). (Within the telecoms sector the mobile companies presented the real competition to landline providers, most notably to Matáv.) Furthermore, at this stage, although eventual membership of the European Union was already under discussion, the conditions for meeting EU criteria for membership were not as clearly defined, or as high on the policy agenda as they were to become later in the 1990s. In the telecom sector the main European influence came from Germany which was the primary investor in Hungary, reinforced by Hungary's traditional economic and political German orientation) and this was exemplified by Deutsche Telekom taking a half share of MagyarCom's stake in Matáv. However, the privatisation and liberalisation of the German telecom sector were scarcely more advanced than the situation in Hungary in the 1990s: Telekom, later to be renamed Deutsche Telekom, was created as a separate company in 1989-1990 and the majority of its shares were only sold off between 1996 and 2002. A semi-independent regulatory authority for telecoms was only created in 1998 (Thatcher 2004:761). In this context therefore, the decision to encourage competition for local concessions, albeit, a competition to then operate local monopolies, was a significant departure from the norms of the time, and it was a development that was unique in East Central Europe. Most significantly for the argument of this paper, it was not a development that could be predicted from the perspectives of the weak state or the competition state.

### *3.2 The further privatisation of Matáv in 1995.*

As noted above, a decision was taken in late 1994 by the new Socialist-Free Democrat government to reduce the stake held by the state in Matáv to 25% + 1 vote. However, a number of issues relating more generally to their privatisation policy had to be resolved before the next round of the sale of Matáv shares could proceed. In particular, a number of issues arose between, on the one hand, the government and its newly formed State Privatisation and Holding Company (ÁPV Rt)<sup>5</sup> and on the other hand, MagyarCom as the incumbent stakeholder in Matáv.

In particular, two issues arose on which opinions were divided. First, there was the question of who should be encouraged to buy a further issue of shares in Matáv: whether to sell further shares in Matáv to large investors; whether such investors should include any company other than MagyarCom; or whether to sell off the shares through a public offering and/or a stock market flotation. Secondly there was the issue of the timing of the sell-off. MagyarCom let it be known that it had an interest remaining as the only large investor and therefore, in increasing its stake to at least just over 50%, but it did not

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<sup>5</sup> This was created by merging two existing authorities: the State Property Agency and the State Holding Company. It had taken over the functions of managing the privatisation process after the passing of the new Privatization Act in the summer 1995.

feel that it was in a strong position to make a further investment at that stage in the development of Matáv. Therefore its preference was for the postponement of any share issue or flotation until the company was in a stronger financial position. However, the priority for the SPHC was to move ahead quickly with further privatisation in order to meet its target for income from privatisation and create more revenue, before the end of 1995 if possible. From the government's point of view, at a time of severe pressure on the Hungarian economy, a further sale of Matáv shares would be very important as a contribution to keeping the budget deficit under control.<sup>6</sup>

In the circumstances there was insufficient support for a public offering or flotation of shares and also, the government had relatively little time to bring in a second large investor in Matáv.

Matáv/MagyarCom was able to lobby strongly against either of these options and take advantage of the government's relatively weak position. As a result, the SPHC put its support behind increasing the stake of MagyarCom, and argued for it to take as large an increased stake as possible. However, MagyarCom was initially reluctant because the acquisition of a majority holding would not significantly strengthen its control over the company and it regarded further investment at this stage as premature. In addition, the Germans had spent a lot on buying the mobile licence for Westel in 1994. Their preference would have been to wait until its development strategy for Matáv had put the company on a sounder footing.

Nevertheless, it was finally agreed in late December 1995, that MagyarCom would buy a further 37 per cent stake in Matáv for the sum of USD 852 million, thus giving it a total stake of just over 67 per cent (Canning & Hare 1996). Behind the scenes the government and MagyarCom had been able to strike a deal. Of the different episodes in the story of the transformation of telecom in Hungary this one probably comes closest to the kind of scenario that would be predicted by the competition state approach. However, even here the story is complicated by rival proposals representing rival interests. It could be argued that those arguing for a share flotation to small investors lost the argument because of the specific weakness of the Hungarian economy in the mid-1990s rather than because of more general trends arising from globalisation. Indeed, this episode fits quite well into the general picture of Hungarian privatisation presented by Hanley et al, of swings in government policy as they weave between the competing goals of attracting foreign investment and promoting the development of domestic capital accumulation.

### *3.3 The 2001 Unified Telecommunications Act*

As noted above a major aim of the new legislation was to bring the Hungarian telecom sector closer into line with EU competition policy and the EU telecoms directive. This not only required the government to persuade existing stakeholders, Matáv and the local telecom operators, that they could not expect any extension of their existing monopolies, but that they should accept a premature ending of the exclusive rights granted them in the earlier legislation. The new legislation also promised the

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<sup>6</sup> 1994 was an election year which deteriorated further the fiscal (budgetary) situation; this unfavourable situation was ended by the Bokros package of 1995.

establishment of a new regulatory framework that would be both more independent of the government and more proactive in ensuring competition in the telecoms market.

Thus, at a general level, we can identify a range of different interests, each with different preferred outcomes, including Matáv, Deutsche Telekom (now as its sole large strategic owner), the EU through its conditions for membership, the local telecom operators, and the Hungarian government. Since the opening of the market to wider competition was the goal of the legislation there were also other potential players among companies who might wish to enter the landline market. The different political parties also had their own positions on different aspects of the proposed new legislation. Of the main players, Matáv and the government were the major players. Matáv was particularly strong because of its economic strength in the market, its technical resources and know-how, its strong lobbying and policy formulation expertise, and its relative unity of purpose compared with other actors. While the smaller companies scarcely managed to employ a single full-time lobbyist, Matáv had a whole department working on preparations for the new act, even to the point of offering drafts to the government, or when the bill came before parliament, to selected politicians in different parties. Where necessary, they could also call on the expertise of Deutsche Telekom, and through them, even the German government.

By contrast the government had a more diffuse set of interests to keep in view as it launched the drafting process of the new act. The drafting was to be carried out by a group of about 12-13 officials within the Ministry under the leadership of state secretary Imre Bölcskei. They were responsible to the Minister, Kálmán Katona but he took little active part in the drafting. The drafting group had four, not completely complementary aims:

- (i) to meet EU expectations that it would achieve a greater degree of competition;
- (ii) to respect the value of the existing investments of the incumbent telecom operators and not to alienate them from the legislative process;
- (iii) to seek political compromise by consulting representatives of all the parties involved;
- (iv) to strengthen the position of the ministry within the government by inviting them for consultations.

The drafting group had produced 7 different drafts by the beginning of 2000. According to most interview respondents who saw them, the drafts proposed moderate liberalising changes but were mainly sympathetic to the incumbent telecom providers, taking a gradual approach to the opening up of the market. At this point however, for reasons that are not entirely clear, the whole drafting process was thrown into disarray by the sacking of Minister Katona, the break-up of the large multi-function ministry and the dissolving of the drafting group. For an interim period of a few months drafting continued under the supervision of members of the HÍF regulatory agency but in October 2000 it was taken over by the Prime Minister's Office under the overall supervision of the Minister of the Prime Minister's Office, István Stumpf.

A number of different reasons were offered for Prime Minister Orbán's decision to sack Katona, and it is likely that there was no single reason but a combination of several. The two men did not enjoy an easy personal relationship and Katona came from the junior coalition partner party, the Hungarian Democratic Forum. He was also more market-oriented than Orbán: the latter wanted to see more regulations than Katona. He was a very popular minister who was regarded by the public as having done a good job in overseeing flood relief in the previous year – but this may have drawn attention to him as a possible rival to the main Fidesz coalition party. There were also inter-ministry rivalries within the government as other ministries jealously eyed the many responsibilities of the Ministry for Transport, Telecommunications and Water Management. Two versions emerged from the interviews: 1. Stumpf wanted the area for himself.; 2. Orbán wanted to have it under his – more or less – direct control. However, there is probably a further factor which relates more closely to the subject matter of the draft legislation. Although Katona did not have any day-to-day involvement in the drafting process, he did have a reputation of being more of an economic liberal than Prime Minister Orbán, especially over issues of price regulation, and he may have been seen as a threat to the general gradualist consensus that was emerging on competition issues in the drafting group. He was also thought to support provisions within the drafts that favoured the local telecom providers at the expense of Matáv. It was strongly rumoured that Matáv had serious concerns about Katona and the likely outcome of the drafting process and that Matáv were supportive of the transfer of responsibility to the Prime Minister's Office.<sup>7</sup> As a result of the reorganisation a former Matáv insider, Tamás Fellegi, was appointed to a position within the PM's Office in a chain of responsibility between Minister Stumpf and a new committee dealing with detailed issues codification, chaired by lawyer Anna Dessewffy.<sup>8</sup>

The new team produced a series of further drafts before a bill was finally presented to Parliament in 2001. All interested parties were consulted and invited to comment on various drafts and most parties also lobbied the Dessewffy's committee. The exception was Matáv who, according to respondents involved in the drafting process, were able to make approaches directly at ministerial level.<sup>9</sup> According to some observers an approach was also made at senior government level by Otto von Lamsdorf, the CEO of Deutsche Telekom.<sup>10</sup> The final stages of the preparation of the bill were carried out with great haste in order to secure the passage of the bill in accordance with the government's legislative timetable. As a result, many details were left to government decrees instead of being incorporated into the act itself. In general this was considered by respondents to favour incumbent telecom operatives because they were in a better position to influence government regulations.

The final version of the act was generally regarded as creating a legal environment that made it possible to open up the telecom market in Hungary, and thus meet EU guidelines on liberalisation of

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<sup>7</sup> Interview with former ministry official, Budapest, 11 November 2005.

<sup>8</sup> This was not strictly a drafting committee but it regularly invited policy experts from companies for consultations.

<sup>9</sup> Interview with former ministry official, Budapest, 21 October 2005.

<sup>10</sup> Interview with manager of a telecom company, Budapest, 28 October 2005; and interview with consultant, Budapest, April 2005.

landline services. However, by also taking into account the concerns of Matáv and other smaller service providers, the effect of the act was to forestall any acceleration of liberalisation. On the whole the incumbent providers had secured provisions that they found acceptable. Matáv and the local companies had lobbied hard for market conditions and technical regulations that made it relatively expensive for newcomers to enter the market. In particular, calls from a number in one network to a number in another were subject to cross-financing charges which benefited the incumbent providers. Also, the new regulatory arrangements still left the incumbent companies with considerable leeway. The Telecom Arbitration Committee (HDB), the successor to the HÍF, lacked sufficient expertise to adjudicate on some disputes with authority, with the result that if companies received an unfavourable ruling from the HDB they would resort to the courts to seek redress.<sup>11</sup> These were to be important issues for the next government, the Socialist-Free Democrat coalition elected in 2002 which quickly introduced a further telecom act in 2003, with a principle aim of establishing a new regulatory framework due to a new EU directive.<sup>12</sup>

It could be argued that the passage of the 2001 Act revealed that a new policy making structure had emerged in the telecom sector as a result of the previous privatisation process. Something resembling a policy community had emerged, consisting of successive governments irrespective of party composition, Matáv, the smaller incumbent telecom companies, and various professionals and consultants in the telecom industry who nearly all shared a background and training with Matáv employees. By the late 1990s it was relatively difficult for new actors and new ideas to break into the existing policy community and policy change therefore tended to occur only in the direction and to the extent that consensus could be reached between the informal partners in the community. New ideas did enter the policy agenda, including especially influential ones from the EU, and new actors were able to lobby for changes that would benefit them, but their effects were limited by the consensus within the established community. The specific outcome, as far as the 2001 Act was concerned, was that new ideas about competition policy were accepted, and new economic actors were able to enter the market, but only in ways that were acceptable to the incumbent service providers.

#### **4. Conclusion**

The evidence discussed in this paper suggests that the Hungarian state has played a rather active role in economic policy making in the telecoms sector and has made a significant impact on the character and direction of policy. Its role seems far from what would be expected of a weak state in a 'borderless world'. Moreover, although the initial policy choice in the privatisation of telecoms was to sell to a foreign-owned strategic investor, and policy since has been subject to the influence of this now incumbent main service provider, the state also adopted measures to provide for competition for local area concessions to smaller companies, and to float a part of the assets of Matáv on the stock exchange.

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<sup>11</sup> Interview with consultant on telecoms, Budapest, 27 May, 2005. See also Papai (2002).

<sup>12</sup> In the new government the minority partner, the SZDSZ had responsibility for this area. They were under time pressure: they had fought for and won a new ministry in 2002, but as it was not part of the 2002 budget, they had to fight for an additional budget and they had to legitimise the existence of the new ministry.

In 2001 and 2003 governments of different political complexions adopted measures to introduce competition and terminate the local monopolies of the incumbent providers. This tends to support the conclusions reached by Hanley et al. that the Hungarian state has acted more like a developmental state than a competition state.

However, the model of the developmental state does not seem adequate in itself to grasp the complexity of the politics of telecom reform in Hungary. It assumes that the national state is the sole domestic policy actor, behaving in a mixture of competition and cooperation with international companies and organisations. The evidence suggests however that there is a lot more significant 'politics going on' within the national arena and that the state is obliged to interact not only with international actors but with a range of domestic actors as well. It has been seen that the specific character of policy change in the Hungarian telecoms sector cannot be understood without taking into account the actions and views of the government, Matáv, the local service providers, new alternative providers seeking to enter the market, and a range of individual government officials, politicians, policy advisors and consultants.

Finally, it is clear that the category of 'international' or 'globalising' influences also has to be disaggregated. By the late 1990s it was clear that there were competing international influences, with Deutsche Telekom and the EU having different interests and supporting different policy positions in the reform of the telecom sector in Hungary. Rather than seeing foreign-owned companies and international organisations solely in terms of globalising influences, they can also be understood as actors within the national policy framework, and part of the complexity of national politics on which policy making outcomes are ultimately contingent.

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