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Who said politicians cannot be conservative?

Comparing reform capacity in the Czech and Hungarian telecom administrations

By

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Abstract

Hungary outpaced the Czech Republic in reforms of the telecom sector during the first decade of transition. In the Czech Republic, prices remained low, competition limited and the state maintained ownership of the incumbent operator. Hungary, in contrast, experienced extensive privatization, liberalization of prices and some deregulation. This article examines the assumption that institutional veto points manipulated by conservative bureaucrats hindered the initiatives of reform minded politicians. It is shown that the Czech telecom administration had only a few possibilities to block policy decisions through veto points. The slow reform process was rather a result of a conscious political strategy of maintaining control and accommodating a conservative constituency in context of a relatively sound economic environment. In Hungary, bureaucrats acting as agents of change pushed through the reforms despite opposition from politicians. This insight challenges the traditional picture of civil servants in post-communist systems as inherently conservative and anti-reform.

Key Words: Czech Republic, Hungary, Telecom, Veto points, Post communism, Eastern Europe.

¹ The article draws on the analytical perspectives developed in "*Institutionel forandring af telesektoren i Øst- og Centraleuropa. En komparativ analyse af Ungarn og Tjekkiet*" by Jesper Andersen and Luise Pape Møller, Dept. of Political Science, University of Aarhus, Denmark, 2003.

Are government bureaucrats by nature conservative and do they obstruct any reform that may threaten established routines and/or privileges? Or can administrative actors become agents of change, prevailing over more reform reluctant politicians restrained by vested interests and conservative constituencies? The general literature on administrative reforms offers opposing views. Some, like Knill (1999: 115), see administrative actors as inherently opposed to reforms. Others perceive bureaucrats as rational actors who may actually engender reforms. In a rational choice perspective, this may take place if the reforms foster 'bureau shaping' (Dunleavy, 1991) or 'meta management' (Clarke and Newman, 1997), meaning the establishment of structures that take the bureaucrats away from everyday management and into more safe and insulated policy making or supervisory organs. Others, for example Pierre (1998), demonstrate that high level bureaucrats actually have been agents of change in a number of recent administrative reforms. The literature on administrative reforms in post-communist systems is less ambiguous. Here the government bureaucrats that came out of communism are seen as entirely ingrained images of the incumbent regime, as part of an 'implementation machine' (UNDP, 2001: 2) representing an ideologized version of a *Rechtsstaat* administrative culture. Here the individual bureaucrat allegedly blocks any reform initiative that runs counter to the established model, either because of his norms or habituated patterns of behavior (the sociological version) or because he is captured by industrial and regional interests that have survived the communist regimes (the functional version) (König, 1992; Obolonsky, 1999; Ágh, 2001a; Goetz, 2001). The consequence was, as summarized by Nunberg (1999: 254) in her major treatise on administrative reform in post-communist states, that 'In the main, administrative practice from the communist era has survived remarkably undisturbed, though, by and large, in a de-ideologized form'. But is this observation correct? Are post-communist government bureaucrats by definition conservative and anti reform? Or can they, for one reason or another, rather be engines of change, as we have seen in some Western systems? This is the core puzzle pursued in this article.

To unravel this puzzle we have chosen to look into and compare administrative reforms in one specific sector (telecom) in two rather different countries (the Czech Republic and Hungary). We consider telecom to be a critical case of administrative reforms for two sets of reasons. First, the telecom sectors were under communism organized along similar lines, and the systemic and administrative starting points in the Czech Republic and Hungary were therefore quite similar. The sector was owned and managed by the state, and operator and regulator were very closely connected, if not identical. At the beginning of transition, the sector was deeply entrenched in domestic

industrial structures, interests groups and conservative views about information as a strategic resource, replicating development in developing countries. (Willenius & Stern, 1994; Nørgaard & Møller, 2002; Singh, 1999; Petrazzini, 1995; McDowel, 1997; Levi-Fauer, 2003a, 2003b; Schenk, Krause & Müller, 1997; Cowhey, 1994; Campel, 1995; Bauer & Straubhaar, 1994; Sinha, 1994). Second, the sector is extremely exposed to rather similar demands for modernization, partly from the new domestic economy, partly from international actors and institutions, and not least from a critical shortage of or badly needed investment capital (Eliassen & Sjøvang, 1999; Duch, 1991; Thatcher, 1999; Tilton, 2003). These conflicting pressures make the telecom sector an exemplary case for examining the role of the bureaucracy in the reform process. At the same time, Hungary and The Czech republic are very appropriate contrasting country cases, because they implemented opposite reform strategies, the Czech Republic as a champion of a radical, fast moving strategy and Hungary as a more reluctant gradual reformer (Ágh, 1999, 2001b; Svejnar, 1995; Fawn, 2000, 2004). In largely identical external environments and starting from identical administrative systems, we would thus expect conservative bureaucrats to have the largest room for manoeuvre in the slow moving Hungarian reforms, whereas they should have fewer opportunities to resist reforms among radical Czech reformers. However, the outcome has been the reverse. The Hungarian telecom sector has gone through radical reforms, whereas it has hardly changed in the Czech Republic. It is the factors behind this surprising outcome we explore in this article.

In order to explain the distinctive patterns of administrative development we apply the concept of administrative reform capacity as the dependent variable. Administrative reform capacity is defined as the structural potential for administrative reform (Knill 1999: 114). Administrative reform capacity therefore defines the institutional space that constrains or enables the agents in the sector to carry out reforms. It is measured by the frequency of veto points in the administrative structure. The dependent variable is the actual progress of administrative reform in the telecom sector as measured by three kinds of reform initiatives: privatization, competition and price regulation. Privatization is defined as the sale of shares in a state owned corporation to private investors (Feigenbaum et al., 1999: 1). Perfect competition is defined as a situation with free entry of new players into a sector, and where transparent and cost effective prices determine winners and losers (Clarke & Pitelis, 1993: 108-113; Parker 1998: 31-33). Regulation is defined as the state's management of a sector over which it does not have full ownership control (Mortensen & Olsen, 1991: 11-12). Regulation in the telecom sector first of all concerns rules of entry, end user- and interconnect prices.

The first section provides a short comparative outline of actual reforms in the Czech and Hungarian telecom sectors. Section two introduces the theory of veto points as a hypothesized explanation of the observed variance in reform progress in the two countries. In section three we examine if the theory of institutional veto points really can explain the observed differences.

2. Comparing the development of the Czech and Hungarian telecom sectors

During the last decade, reforms have been carried out in the Czech telecom sector in the areas of privatization, competition and price regulation, but the structure still far from lived up to EU standards. At the same time, the Hungarian telecom sector was transformed to correspond to a modern capitalist economy, where the incumbent competed as a private operator with several foreign telecom companies regulated under a price cap mechanism. This section describes the two different reform trajectories.

In the Czech Republic, new telecom legislation opened up for privatization of the state owned telecom company, SPT Telecom, already in 1992 by making possible a separation of mail and telecommunications. The separation was effected in 1993 and was followed by the establishment of SPT Telecom as a corporation in 1994. The privatization process was long and politicized because of a conflict between SPT Telecom and the Ministry of Finance. SPT Telecom wanted to raise local tariffs to help finance an ambitious modernization plan, but the Ministry of Finance resisted (Michalis & Takla, 1999: 99). But in 1995, 49 percent of the company was finally sold. The Swiss-Dutch consortium TelSource² bought 27 percent as a strategic investor, and the rest of the shares were sold as vouchers. The privatization process did not move any further in the period dealt with in this article.

In Hungary, the Concession Law was adopted in 1991, enabling private companies to run state owned companies. In the beginning of 1992 the incumbent operator Mátav was established as a corporation. The Telecommunications Law adopted in 1992 split telecom services in two groups: services requiring a license and services under full competition. The first 30.2 percent of the shares in Mátav were sold already in 1993 to the consortium Magyarcom, consisting of Ameritech and Deutsche Telecom. In 1995 a further 37 percent of the shares were sold to Magyarcom, so the consortium now owned 67.2 percent of the company. In connection with a public offering in 1997,

ownership of Magyarcom was reduced to 59.6 percent and state interests were reduced to a golden share of 6.6 percent.

In the Czech Republic, reforms in the area of competition were slow and limited. In 1991 a group consisting of representatives from SPT Telecom, Bell Atlantic, US West, and the German consulting firm Detecon prepared a development programme for the telecom sector (Michaelis & Takla, 1999: 94). But with a penetration rate of 14.23 main lines per 100 inhabitants, the Czech telecom network was quite extensive in comparison to the Hungarian one, where the penetration rate was only 8.25 (Schenk, Kruse & Müller, 1997: 94). The pressure for development was therefore less hard, and the development plan consequently less ambitious than in Hungary. Seen in this light, it is remarkable that the Czech Republic did not introduce competition, because of the government's liberal ideology and the more moderate need to promote investment. The Telecom Act of 1992 granted SPT Telecom a 20-year license with monopoly rights in long distance and international telephony until 2000 (Bruce, Kessides & Kneifel, 1999: 26). The law provided for competition in local networks, but it was only introduced in 18 out of 120 local areas. These 18 areas were primarily in the countryside with low penetration rates and outdated networks and were too small to guarantee revenue for new investments (CTO, July 2001). After the introduction of competition, SPT Telecom still covered 99 percent of the country. On the mobile market three licenses were granted in the first half of the 1990es, but the state retained ownership control over all of them. The state was a majority owner in EuroTel Praha³ that was granted its first licence in 1992 and a second license in 1996. The third license was granted to RadioMobil,⁴ in which Ceske Radiokommunikace owned the majority of the shares. As the state also had ownership control over Ceske Radiokommunikace, competition in the mobile market was almost non-existent. Hence, the Czech Telecom market was basically still monopolistic by the end of 2000.

In contrast, competition in local telephony was introduced much more systematically in Hungary. As mentioned, Hungary was under pressure to develop the infrastructure very rapidly and therefore adopted an ambitious development plan in 1991. In 1992, the Telecommunications Law granted

² TelSource was owned by PTT Telecom Netherlands, KPN's telecommunications division, and, the minority partner, Swiss Telecom with AT&T as a nonequity partner.

³ EuroTel Praha was 51 percent owned by SPT Telecom and 49 percent owned by a U.S. consortium comprised of U.S. West Media Group and Bell Atlantic International.

⁴ RadioMobil was 51 percent owned by Ceské Radiokommunikace (which is 70 percent state owned) and 49 percent owned by the consortium T-Mobil, which consists of DeTeMobil (85 percent), STET (12 percent) and others.

Mátav the right to offer long distance and international telephony for 25 years with eight years of monopoly rights. At the same time, the country was partitioned into 54 local areas. Each local area was allowed to vote for a tender, resulting in 25 tenders. 31 municipalities accepted that Mátav automatically retained the right to operate. During the tenders, Mátav won the right to operate in five areas and was granted two more because there were no other bidders. Hence, nine foreign owned companies won the right to operate in 18 of the 25 licenced areas. Mátav's monopoly was also under pressure from another flank. The first analogue network was established and operated by Westel in 1990.⁵ In 1993 two GSM licenses were granted to Westel and Pannon GSM.⁶ The third mobile operator, Primatel,⁷ entered the mobile market in 1999. In sum, a number of foreign companies entered the market for local and mobile telephony in Hungary, while in the Czech Republic there was only very limited competition in local networks and state control of all mobile operators.

In the area of price regulation no major reform initiatives were taken in the Czech Republic to rebalance tariffs. In the early 1990es the administrative structure was complex and divided between numerous administrative levels (Michalis & Takla, 1999: 90). The regulatory structure was changed in 1995 so that the Ministry of Finance could set the price upon proposal from the regulatory authority. So, even after the reform, the pricing policy was still under political control. Prices were raised by 50 percent in 1992, but as the point of departure was far under market level, prices were still 40 percent lower than in other OECD countries (ibid.: 90; Schenk, Kruse & Müller, 1997: 154). The method was to set a maximum price that reflected the Consumer Price Index so that telecommunication services prices would not rise faster than those on other goods (MDCR, 1999: 5). As one of the central agents in the field expresses it: "*the Ministry set a price level that would be both politically and socially acceptable*" (interview). This practice continued after 1995 despite plans to make pricing more cost-effective. According to a spokesman for Cesky Telecom (formerly SPT Telecom): "*the Ministry of Finance only had one goal: to keep prices low*" (interview). So, the pricing policy has been to avoid taking any major reform steps that could make the Czech telecom sector resemble EU standards more closely.

Hungary chose the opposite strategy. A price-cap method was introduced in 1995 to ensure that tariffs reflected the real costs of providing the service. A production factor was adopted in the price-

⁵ Westel was 51 percent owned by Mátav and 49 percent owned by US West.

⁶ Pannon GSM was a consortium consisting of a number of Hungarian and foreign companies.

⁷ Primatel was a consortium led by Airtouch-Vodafone.

cap to incorporate the expected improvements in efficiency. The production factor was set at two percent. Local tariffs were simultaneously set to increase year by year, and long distance and international tariffs were to fall in order to balance past disturbances in the price structure. Interconnection prices were still set through negotiation between the operators, the regulatory authority acting as intermediary. To sum up, Hungary introduced a price-cap mechanism in order to balance tariffs, while the Czech Republic kept a system of artificially low prices. In both countries interconnection prices were set by negotiation.

Table 1 shows the results of the reform process by the year 2000.

Table 1: Privatization, competition and price regulation in the Czech Republic and Hungary, 2000.

	Privatization	Competition	Price regulation
Czech Republic	<ul style="list-style-type: none"> Ownership of SPT Telecom: Telsource 27 percent, public shares 22 percent, state 51 percent. 	<ul style="list-style-type: none"> International and long-distance telephony: SPT Telecom has exclusive rights Local telephony: competition in local telephony is allowed in 18 out of 120 local areas. Mobile telephony: EuroTel Praha and RadioMobil have licences to operate. 	<ul style="list-style-type: none"> Tariffs are set by the Ministry of Finance and are following the Consumer Price Index. Interconnection prices are set by negotiation.
Hungary	<ul style="list-style-type: none"> Ownership of Mátav: Magyarcom 67.2 percent, public shares 26.2 percent, state 6.6 percent 	<ul style="list-style-type: none"> International and long-distance telephony: Mátav has exclusive rights Local telephony: Municipalities can vote for a tender in 54 local areas, resulting 25 tenders. Mobile telephony: Westel, Pannon and Vodafone have licences to operate. 	<ul style="list-style-type: none"> Price-cap regulation Interconnection prices are set by negotiation

Sources: Bruce, Kessides & Kneifel (1999), Michalis & Takla (1999) & ESIS (2001).

As demonstrated in this summary, there were significant differences between the two countries in privatization, competition and price regulation. Where the Czech state still retained ownership control of the incumbent operator in 2000, state ownership in Hungary was reduced to a golden share of 6.6 percent. Moreover, municipalities had been given the option to vote for tenders in all local areas, resulting in tenders in 25 out of 54 local Hungarian areas, while competition was allowed in only 18 out of 120 local areas in the Czech Republic. Finally, in the Czech Republic, prices are set

by the administration, while in Hungary they are regulated by a price-cap mechanism. Hungary therefore by far surpassed the Czech Republic regarding institutional reforms of the telecom sector.

But how do we explain these differences? Are they, as would be the argument of the 'conservative bureaucracy'-thesis, the outcome of dissimilar institutional frameworks providing different access points for equally conservative bureaucracies? The next two sections elaborate the theory on the role of institutional structures, and examines if differences in institutional veto points could possibly explain the observed differences.

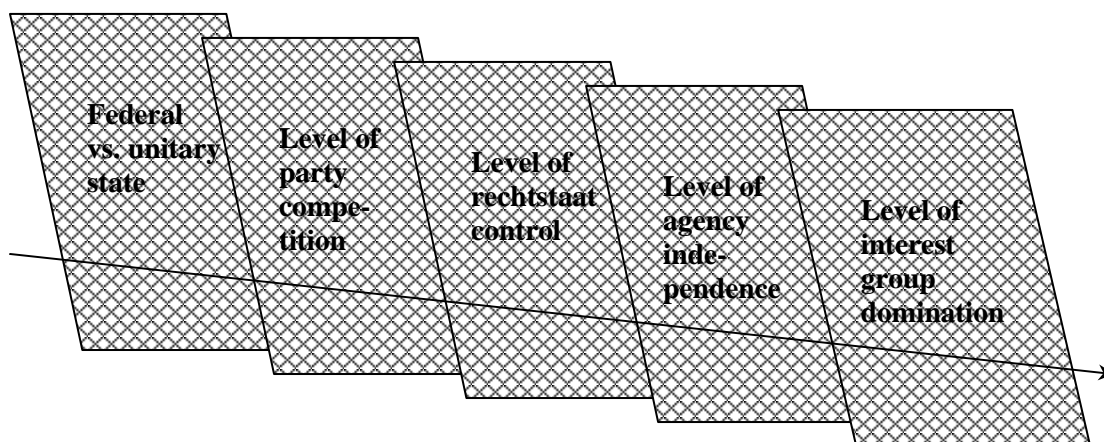
3. The theory of institutional veto points and reforms of the telecom sector

In contrast to George Tsebelis (1995) who focused on *veto players*, Knill (1999) sees veto points as institutional frameworks that constrain or enable political agents. The obstruction of policy decisions is not ascribed to certain groups but is considered to depend on the institutional context (Immergut, 1992: 8). Seen from this angle, veto points can be defined as institutions that provide actors the opportunity to block policy decisions.

Following the logic of Knill (1999: 116), the likelihood of administrative reforms decreases with the level of autonomy of subordinate administrative levels and their cooperation with societal agents. Hence, Knill assumes that executive leadership promotes administrative reform whereas the administration will obstruct reforms. He examines the impact of veto points on administrative systems across countries and compares the administrative reform capacity, that is, the actual ability to implement reforms. In this process he identifies 5 veto points or continua: federalism versus unitary states, level of party competition, level of Rechtsstaat control, level of agency independence and level of interest group domination.

These veto points can be visualized as filters through which decisions must pass before reforms can be undertaken. It will be more or less easy for administrative or societal agents to block reforms, depending on the density of the filters, that is, the institutional barriers. The process is illustrated in Figure 1:

Figure 1: Veto points as filters in the decision policy process:



The *federal-unitary state dichotomy* encapsulates the differences between federal systems where the executive is constrained by constitutional regulations stipulating that governmental policy and coordination have to be achieved between autonomous bureaucracies, and unitary states where policies can be decided and implemented at the political and administrative centre. On this continuum, the capacity for reforms is obviously the highest in the unitary state. *Level of party competition* distinguishes between cases where a dominant party is able to make and honour commitments on specific policies and those where coalition governments are engaged in continuous bargaining, reducing reform capacity correspondingly. Level of *Rechtstaat* control has to do with the extent to which actors have the possibility to refer policy decisions to constitutional or administrative courts, thus blocking already adopted policies. Also here a system without judicial review in one form or another has a higher reform capacity than one where such institutions exist. Further, when decision-making is based on informal norms or procedures or where formal rules are made to exclude participation, opponents of a policy will be unable to block it. This way the legal system can be used to prevent arbitrary decisions by politicians putting planned investments at a risk (Levy & Spiller 1996: 7), but it can also be used to prevent decisions that promote administrative reform. Civil servants can also use their specialist knowledge about the system to block administrative reform by referring to legal rules, preventing implementation. On the *Rechtstaat* issue, the extent to which the legal system has been used to block reforms, we will refer to the *practical application* of the legal weapon during the 10 year reform period in the two countries.

The level of *agency independence* is the vertical aspect of the federal-unitary dichotomy – the extent to which ministers, departments or agency heads are autonomous actors, either *de jure* or *de facto* able to resist executive leadership. The lack of a clear hierarchy will enable lower administrative levels to act independently of government. In addition to the *formal* delegation of power to lower levels of the administration, the leadership may also be *de facto* independent. Concerning agency independence, the telecom sector is characterized by an abundance of technical questions, rendering politicians dependent on the insight and advice of their civil servants. Civil servants can thus influence policy decisions and thereby block administrative reform. As a parallel to the internal organization of government on the sector level, we will use the existence of an *independent regulator* as a measure of delegation. The degree of independence can be measured by whether the budget is at the authority's disposal, whether the leadership is politically appointed and whether the ministry has any formal right to influence the decisions made by the regulator. Level of *interest group participation*, finally, has to do with the extent to which the executive needs to accommodate private interests in the formulation and implementation of reforms. These veto points may arise from formal delegation to private association, but also from *de facto* political constraints when strong peak associations control critical constituencies. Interest group domination involving the incumbent operator will work as a conservative force because the incumbent operator has an interest in preserving its dominant market position. The patterns of interest mediation can be measured by the presence of regular meetings and the existence of formalized rules and procedures for interaction between public and private actors. But more informal and irregular kinds of interaction can be just as effective in blocking administrative reform.

4. Conservative administration and progressive politicians?

The importance of individual veto points will obviously vary, not only between countries and sectors, but also over time. In this study we apply the theory of institutional veto points to one sector case: administrative reforms in the telecom sector in two countries, the Czech Republic and Hungary, in the decade following the collapse of the communist system and, in the case of the Czech Republic, the break-up of the Czechoslovak federation. Because administrative reforms, as described in the previous section, have progressed much further in Hungary than in the Czech Republic, our theoretical expectation is that the institutional filters were dense in the Czech Republic and more open-meshed in Hungary. The analysis is based on interviews with central agents in the Czech and Hungarian telecom sectors and focuses on the practical effects of the

institutional veto points, whether formal or informal, in explaining the variance in administrative reform capacity in the two countries.

On the constitutional issue, both countries are unitary states and the constitutional structure may therefore not explain the observed variance in administrative reforms in their telecom sectors. Also the differences in the level of party competition during the 1990es fail to explain the observed variation. In the Czech Republic, an electoral system of proportional representation was introduced in the transition period (Fawn 2004; Saxonberg, 2003), while a mixed system of proportional and majoritarian representation was designed for Hungary (Ágh, 2001b), both with a five percent threshold. However, the different electoral systems led to quite similar party- and government structures. In both countries, the party system comprised a moderate seven to nine parties with one or two leading parties. And in both countries, all governments throughout the 1990s were coalitions. Hence, the focus in this article will be on the three remaining veto points: the level of *Rechtstaat* control, the level of agency independence and the level of interest group domination. In all three cases we will primarily base the analysis on empirical data on actual policy processes and less on formal institutional analyses.

The legal system could be a possible explanation for the limited administrative reform capacity in the Czech telecom sector because legal rules may work as a constraint on politicians, and vice versa in Hungary. However, empirical evidence shows that the legal system were of limited importance because it was not possible to lodge administrative complaints about competition rules, the privatization process or the tariff structure in the Czech Republic. Only in the area of interconnection prices was it possible to file administrative complaints. But as interconnection prices are set by agreement between operators, this option was hardly used (interview). Moreover, it was not possible to complain about the system of fixing interconnection prices, only the actual prices in a given year. Hence, the legal system did not act as a constraint on politicians in the Czech Republic. Also the Hungarian legal system had limited importance as an institutional veto point. During the privatization process there was a great deal of complaints about irregularities, but mostly in the public and political debate and never in court. However, the mode of privatization was adapted to the interests of the incumbent operator to such an extent that this in the further process also limited the role in additional regulation of the sector. There were a lot of complaints on competition issues, but only in two cases were they taken to court. In one case the official price formula was contested and in another the rules that govern cabling. In general, however, the

legislation reflects the interests of MÁTAV, and it therefore cannot be used by competitors to challenge the position of the incumbent operator. As one core actor in the field summarized the situation: ‘There have been only few legal cases in the telecom sector because MÁTAV’s monopoly position is so strong. Conflicts are therefore typically settled outside the courts’. This also applies to price regulation; first, issues are here settled in a continued bargaining process and the price cap formulae cannot be contested. Second, consumers are also handicapped because of lack of resources and competencies in the state organs dealing with consumer issues. Hence, the legal system is not an institutional veto point that may explain the different reform capacities.

Further, the expectation was that the existence of an *independent regulatory authority* would work as a conservative force, circumscribing administrative reform capacity. Hence, to explain the lack of comprehensive reforms in the Czech telecom sector, as well as the reverse result in Hungary, we would expect the regulatory authority to possess formal or real independence in the Czech Republic and vice versa in Hungary. Still, interviews with civil servants in the sector gave the exact opposite result. In the Czech Republic, the two regulatory authorities dealing with telecom regulation were under strict political guidance and control. The National Property Fund (NPF), founded in 1991 as an independent authority, was responsible for the privatization and sale of SPT Telecom. But parliament appointed the members of the board and the Deputy Minister in the Ministry of Finance was born chairman. Thereby, “*the Ministry of Finance has had the final word concerning NPF’s activities*” (interview). Moreover the NPF was required to publish a yearly report of its activities that had to be approved by parliament. This made it possible for politicians to control both the formulation and the implementation of the privatization policy.

The regulatory authority, the CTO, was founded in 1992 as a unit under the Ministry of Economics. Later it was transferred to the Ministry of Finance and finally to the Ministry of Transport and Communications. This changing organizational structure gave rise to a substantial conflict of interest because both the Ministry of Transport and Communication and the Ministry of Finance have been involved in executing ownership rights over SPT Telecom as well as regulating the company (Bruce, Kessides & Kneifel, 1999: 26). So the ministries were in fact regulating their own company, thereby gaining considerable centralized power over the telecom sector. The CTO was not granted any formal independence, and its only function was to prepare draft legislation, licenses and proposals for the tariff structure. The authority did not become fully independent until 2000,

when the new Telecom Act was adopted. Neither did the CTO gain any considerable real independence in the period under consideration. First, it has been difficult for the authority to attract qualified labour because of low salaries and poor career opportunities (interview). Second, the CTO lacked political backing and therefore had to build up know-how and credibility without external support. The CTO leadership felt insecure about their positions and therefore tried to live up to the political objectives (interview). Third, implementation of the tight pricing policy could hardly have been in the interest of the civil servants in CTO. The task of keeping prices low has led to poor cooperation and understanding from the companies, which must have made the regulatory tasks all the harder to implement. Still, the pricing policy was implemented without modifications, emphasizing the power of politicians to force through their policy. The CTO worked to gain increased independence in the 1990s by advocating an increased budget and extended influence on decision-making, albeit without notable results (interview). As Schenk, Kruse & Müller wrote in 1997: “*The status of CTO is far from its prototype model OFTEL, as an independent body with wide responsibilities (...). It resembles a model of centralized state administration rather than a system of independent bodies with distributed responsibilities and legal powers.*” (1997: 163). Hence, the CTO and the NPF did not possess the independence from political control we had expected.

The Hungarian reform process is in clear contrast to the Czech one. Using the theory of veto points to explain the high reform capacity in Hungary, we would not expect the regulatory authorities to be independent from political control. We would instead expect reform minded politicians to have been able to implement reforms because of their full control of the administration. However, history proved different. First, the Hungarian politicians did not tightly control the privatization agency SPA. Parliament did not adopt the yearly guidelines that were supposed to direct privatizations during 1992-93, when Mátav was privatized and privatizations were carried out as a result of negotiations between civil servants and companies without much involvement from politicians (Urbán, 1993). Second, the regulatory authority, CA, formally gained independence in 1993. It was founded as a separate unit with extended competences on policy formulation and implementation, including responsibility for tenders, quality control, evaluation of the operators’ market surveillance and international contracts. Employees in CA estimate that CA initiates 80 percent of all legislation (interview). As one civil servant expresses it: “*CA is therefore not only an implementation authority but also agenda setting*” (interview). Another civil servant adds: “*The ministry just accepts the legal drafts after having mediated between the concerned interests*” (interview). Some civil

servants explain that only 5-6 persons work in the regulatory department of the ministry, while there are hundreds of experts in the CA. Therefore, the lower administrative levels had a high degree of independence, which according to the theory of veto points, should enable them to block unwanted reform proposals. The Hungarian telecom sector nevertheless went through a comprehensive reform process during the 1990es, with the independent agency as an important pro-reform actor.

In sum, the analysis of administrative independence shows the opposite of what was expected. In Hungary, where comprehensive reforms were carried out, the regulatory authorities possessed a high degree of formal and real independence, and hence the opportunity to block reforms. In the Czech Republic the regulatory authorities were not granted much independence by the politicians. Seen in this light, the low administrative reform capacity in the Czech Republic could not have been caused by conservative civil servants blocking the reform process. First, the choice of retaining the majority of ownership shares in SPT Telecom cannot have been due to civil servants wanting to preserve their regulatory control. Second, the granting of licenses to SPT Telecom and the state-owned mobile companies was not decided by conservative civil servants. Finally, the choice of letting tariffs follow prices on bread and butter could not have been a result of this. Seen from this perspective, the NPF and the CTO were only instruments in the hands of politicians pursuing political goals. However, there is still the possibility that there were connections between the administration and the telecom companies and that this interaction blocked reforms in the Czech telecom sector by passing on the requirements of the companies to the political level.

The theory of institutional veto points predicts that *relations between public actors (the regulatory authority) and private actors (the incumbent operator)* can be an important hindrance for reforms. The assumption was that such arenas can limit the scope for political leadership, thereby blocking administrative reform. We should therefore expect to find alternative arenas of decision-making in the Czech Republic, where the pace of reforms was slow and, correspondingly, not find this in Hungary. However, interviews with centrally placed civil servants and representatives of the telecom companies also here suggest quite the opposite. In the Czech Republic we found that the relations between the CTO and the NPF, on the one side, and the state-owned telecom companies on the other, were hostile with no, or only few, connections between them. Regarding relations between SPT Telecom and the NPF, the parties had no real options of creating a close network to exclude political influence because there were politically appointed representatives in both

organizations. Contrary to Hungary, the Czech Republic installed politically appointed leaders in the most important positions of SPT Telecom (interview). There was intense opposition among politicians to the privatization of SPT Telecom, and they therefore exerted heavy influence, both through their representatives on the board of the NPF and through their leadership in SPT Telecom itself (interview). None of the interviewees knew of any formal or informal interest mediation between the two organizations. It was rather characterized as a hierarchic relationship. The NPF had to control whether the strategic partner was able to live up to the quantitative and qualitative obligations stated in the contract and could fine the company in case of a breach of contract. It also dictated how and what telecom services SPT Telecom was going to deliver (interview). Considering the degree of political control, it is hard to imagine that any connections between the NPF and SPT Telecom would have made a difference in the privatization process.

Nor did interactions between the regulatory authority CTO and SPT Telecom seem to influence the outcome. Rather, the impression from the interviews was that their relations were not only hierarchic, but also cold and distrustful. The reason for their disagreement can be found in the strict political regulation. Especially in the area of price regulation, the politicians kept the tariffs significantly lower than in other European countries, thereby focusing on citizens' demands and needs, and not on SPT Telecom's profitability. Therefore SPT Telecom did not have the same opportunities and economy as other European telecom companies, which generated a lot of frustration among the leadership (interview). And it certainly did not have much influence on regulation. This frustration developed during the 1990es into a "*Cold War*" between the CTO and SPT Telecom (interview). There were not only problems in the area of price regulation. One of the civil servants in the CTO emphasizes the fact that during the 1990es, the CTO tried to increase competition in order to get a policy that was independent from the ministry. She expresses the discrepancy this way: "*Cesky Telecom [formerly SPT Telecom (our comment)] wanted to keep its monopoly position. CTO, on the other hand, wanted to create competition on the telecom market*" (interview). The conflict is even seen as a cause for the delay of the privatization by some researchers in the field (Michalis & Takla, 1999: 99). Hence, the analysis above showed that the limited reform capacity in the Czech telecom sector cannot be explained by interest group interference as a veto-point. There was no evidence of any alternative fora of decision-making, and SPT Telecom's demands were not channeled to the political level.

In Hungary, on the other hand, there were close connections between the regulatory authority CA and Mátav, the incumbent operator. First, there was a high degree of staff mobility between CA and Mátav. Second, even though the government adopted far-reaching reform programmes, policies were sometimes modified in the implementation process. For example, the licenses in the Budapest area were all granted to Mátav without any real competition (Szanyi, 1994) and, contrary to intention, the tariffs were still higher than the real costs after the price-cap mechanism had been adopted (interview; Schmideg 1997: 30-32). This suggests that Mátav had some influence on the CA's regulatory work. This assumption is supported by a civil servant: "*CA and Mátav had the same values and goals in the sector. Especially in regulation sometimes the minister did not have a say*" (interview). Third, experts in the sector point to the importance of lobbying. The leader of a telecom company expresses it this way: "*Lobbying is everything. Mátav is so strong that the administration doesn't wish to work against it*" (interview). On this background, the high Hungarian administrative reform capacity could hardly be due to a lack of cooperation between civil servants and interest groups, opening a window of opportunity for politicians to change the system. The reform capacity is rather the consequence of public (CA) and private actors (MÁTAV) cooperating in the promotion of sector reforms.

Conclusion

The purpose of this paper has been to examine if the theory of institutional veto can explain why telecom sector reform has met such different degrees of success in the Czech Republic and Hungary. Starting from identical initial systemic conditions and exposed to similar external demands, Hungary has achieved remarkable success in privatization, liberalization and deregulation, while progress in the Czech Republic has been very limited. Following the theory of institutional veto points, the expectation would be that the observed differences can be explained by different institutional frameworks, providing inherently conservative bureaucracies and vested interests with dissimilar possibilities to active institutional veto points. Our analysis demonstrated, however, that this was not the case. The modest reforms of the Czech telecom sector cannot be explained by the activation of institutional veto points by conservative bureaucratic actors. The expectation was that the legal system, an independent regulatory authority and close interaction between private and public actors would have blocked administrative reform by creating opportunities for a conservative administration and companies wanting to preserve their privileges. Instead, it was shown that politicians retained control of the reform process through formal structures of decision-making by

appointing representatives to central positions in the NPF, the CTO and SPT Telecom. No connections between the civil servants and companies were strong enough to block attempts to reform the system. Therefore the government was the agent deciding the slow pace of reforms. In Hungary, on the contrary, the regulatory authorities in the telecom sector acted very independently and had close connections to the incumbent operator, but supporting rather than constraining reforms. The result is that the Hungarian telecom sector today is the one that in Central and Eastern Europe is closest to EU standards.

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