

# THE HUNGARIAN EXPERIENCE

János Mátyás Kovács



Dr János Mátyás Kovács, was born in Budapest in 1950, and is a Fellow of the *Institut für die Wissenschaften von Menschen* (Institute for Human Sciences) in Vienna, and a member of the Institute of Economics,

Hungarian Academy of Sciences, Budapest. He teaches history of economic thought at the Eötvös University, Budapest and the Diplomatic

Academy, Vienna. His main field of research is Soviet-type economics.

Presently he coordinates a research project on the conceptual aspects of post-communist transition in Eastern Europe. He is a member of the

editorial boards of *Transit* and *2000*. Recently, he edited a special issue

of *Eastern European Politics and Societies* (Winter, 1991) on "The Rediscovery of Liberalism in Eastern Europe", and published (co-editor:

Márton Tardos) a volume of essays entitled *Reform and Transformation*

in Eastern Europe (Routledge, London 1992).

Hungary



## Hungary (1990)

Population: 10,4 million

Population growth rate: minus 2 per 1000

Unemployment rate: 1990 = 90 000

1991 = 406 000 (rate: 9%)

1992 = 600-800 000 (estimate)

Average wages (gross): Ft 12 500 (US\$ 200)

Urbanised (percentage): 64% (1970: 50%)

GDP: 1980 = 100

1990 = 110,3

1991/1990 = 92

1990 = Ft 2 100bn (US\$ 33bn)

Minimum standard of living (4 member family): Ft 20 000

(one third of the population is under that limit)

Hungary

## CHRONOLOGY OF HUNGARIAN REFORM, 1988-1991

1988	Jan	- Tax reform (personal income tax, value added tax) 'World' passports permitted (liberalization of tourism) Stock exchange opened	Jul	- 'Reform communists' take over the Communist Party
	Feb	- Foundation of the 'National Organization of the Entrepreneurs'	Sep	- Opposition win by-elections Opening of the border to East German refugees
	May	- First independent trade unions János Kádár (general secretary of the communist party) dismisses street demonstrations by environmentalists	Oct	- Tri-party talks reach agreement Communist Party becomes socialist Basic constitutional laws Liberalization of imports Proclamation of the Republic
	Jun	- First association agreement with the European Community	Nov	- Workers' Militia liquidated Referendum concerning the Presidential Election
	Sep	- Foundation of the 'Hungarian Democratic Forum'		
	Oct	- 'Independents' faction emerges in Parliament		
	Nov	- 'Alliance of Free Democrats' founded		
	1989			
	Jan	- Law enacted on the right of free association and assembly 1956 Revolution endorsed by the communists New law for enterprises New law for foreign investment Unemployment benefit introduced Announcement of the withdrawal of Soviet troops	Jan	- 'Danube-gate' — secret police discredited
	Feb	- Multi-party system endorsed by the communists	Feb	- Law passed on the separation of church and state
	Mar	- 'Opposition Roundtable' begins and strike law enacted	Mar	- Free parliamentary elections — victory for the Christian/National/Conservative parties
	May	- Iron Curtain dismantled	Apr	- Informal pact between the Hungarian Democratic Forum and the Free Democrats
	Jun	- Tri-party talks between communists, the opposition and social organizations Burial of Imre Nagy (leader of the 1956 Revolution)	May	- New Parliament and government
	1990		Aug	- Liberal President elected
	Feb		Sep	- Communal elections — victory of the opposition Liberal/Independent candidates
	Jun		Oct	- Taxi drivers' blockade — civil disobedience
	Nov		Nov	- Membership in the Council of Europe
	1991			
	Feb		Feb	- Central European Summit
	Jun		Jun	- The last Soviet troops leave the country
	Jul		Aug	- Restitution of church property
	Aug		Nov	- Pope's visit
	Nov		Dec	- Aborted law on decommunization European Community association agreement

Now I am afraid I have to tell you a more ambiguous and more self-critical story than that presented by my colleagues from Chile and Taiwan. Nevertheless, the final conclusions will be bright, at least in terms of the old Austro-Hungarian saying: "the situation is good but not hopeless".

The message of the Chilean experiment to Eastern European scholars is encouraging: even a military dictator can refrain from anti-liberal interference in the economy. The message of Taiwan is not less promising: small entrepreneurship can prosper under an authoritarian rule. Unfortunately, to anticipate one of my conclusions, the Hungarian message is the following: if the state bureaucracy yields to authoritarian temptations, it can block economic liberalisation even in a formally democratic political system.

This is a less glorious story than the one you could read in the western press in 1989 and 1990. The glorious transition from communism to capitalism, from totalitarianism to liberalism now seems in Hungary to have become a kind of transformation between liberal communism and illiberal capitalism. In other words, this is a kind of transition between two 'third-way' experiments: from one hybrid system to another one. Perhaps you remember the old joke "what is communism?" The answer was: "it is the longest road from capitalism to .... capitalism". The Hungarians have reshaped this joke. In the new version the question goes like this: "what is post-communism?" And the answer is: "it is the shortest road from communist authoritarianism to capitalist authoritarianism".

In Eastern Europe we use very cautiously the phrase "post-communist transformation" because we do not know the destination of our trip. Therefore we rather say "transition to what" with a question mark. I think the main reason for our uncertainty is that the two main scenarios into which we put so much trust in the past have

in the last two or three years failed in Hungary. You know, one was a neo-liberal breakthrough hypothesis and the other one was a kind of all-out social democratisation. Both visions failed and we had to ask ourselves if we had been in a tunnel between communism and capitalism too long without seeing the light at the end of it. Perhaps we have to find new names for staying in the tunnel because we may get stuck there. For a Hungarian scholar, this is

not a surprise because — as we say in our country — nothing is as lasting in Hungary as its transitional phases. We experienced a long period of Turkish domination followed by an even longer Austrian

domination and more recently half a century of Soviet rule. The Russian troops in Hungary were officially called the "troops provisionally stationed in Hungary".

### *“Nothing is as lasting in Hungary as its transitional phases.”*

We are about to find new labels, new designations, and in the meantime we deprecate our Utopias. We started out with the vision of the German social market economy and the Southern European transitions. Then came South-East Asia. Now, Latin America is leading in the competition of analogies. So the visions are becoming darker and darker. The new labels for our emerging system reflect a combination of the following adjectives: authoritarian, national or nationalist, populist, conservative, Bonapartists, sometimes Bolshevik Bonapartists — the Polish term for which is: "Bo-Bo" — Christian, statist, interventionist, third-wayist, rightist and corporatists.

Paradoxically, some of the aforementioned designations were used in the characterization of the *ancien régime* in Hungary. We were talking about 'soft authoritarianism', 'reformist populism' and so on, to describe the Hungarian model of market socialism. At the same time, we assumed that these features should fade away rapidly after a revolution. As opposed to most Eastern European countries, in Hungary the revolution was supposed to mean *refolution*, to use Timothy Garton Ash's term, which is a mixture of reform and revolution. We thought that the transition has to be completed rather

than started, and, as a consequence, the hybrid of market socialism must be converted to a kind of German-style social market, that is, to welfare capitalism. Transition meant to us that the two main taboos of communism have to be touched upon: state ownership and the one-party rule. Paradoxically, in Hungary it was the communists who started this experiment.

While my distinguished colleagues were working on what we called "*nomenklatura* buy-out projects" to corrupt the old ruling elite and smooth the transition, the *nomenklatura* had already corrupted itself. It was a 'cheap' revolution, the members of the old elite did not show much resistance in most of the Eastern European countries. In Hungary they had a maximum and a minimum programme. They thought that if they started the transformation process, they would be able to legitimize a kind of political cohabitation with the opposition. If this did not succeed, they assumed, they would still find a comfortable place in the business community. If you are a communist party secretary or a minister, your wife runs a small boutique and your son has a computer firm, and a renowned international bank offers you a consultant job as soon as you leave your office, then you will not have so much to lose.

Many western observers think that it is the survival of the old elite that leads to new authoritarianism in Eastern Europe. I do not share their opinion. Anyway, to avoid any misunderstanding, I am not talking about a new authoritarian system in Hungary, I am speaking rather of authoritarian *temptations* because I don't think that after two or three years we can be definite about the new designations.

In any event, instead of touching upon the taboos of ownership and political rule, we have a very ambiguous transitional process. Starting off from what we called 'hidden' or 'clandestine' privatisation in the state sector under communism, we seem to arrive at a kind of re-

nationalisation through clientelism and protectionism. This is as far as state-ownership is concerned. As to one-party rule, leaving the field of what we called 'latent informal pluralism' in the mono-party, I mean in the Communist Party, we are approaching a sort of multi-party dictatorship. Some of my colleagues in Hungary are therefore talking about the changing of the ruling elites, I mean a changing of the guard instead of the replacement

of the entire old social system with a new one. Communist elites are being replaced by populist-authoritarian elites, sometimes with strong communist support, and this is not only the case in Hungary, you can see it in Croatia, in Ukraine and also in certain sense in Poland and very soon, I think, in Slovakia.

There is a deep frustration in Hungary now. We did not expect that the transition process could be derailed so quickly, that it could be distorted, slowed down and even reversed so fast. As opposed to the glorious Czech 'velvet' revolution, we say that Hungary has a 'bad tempered' revolution.

### Janus-Faced Economy

With regard to the main topic of this workshop, economic development and democracy, I would like to concentrate on three major fields: economic stagnation, half-hearted liberalisation, and authoritarian temptation.

If you look at the Hungarian economy now, you find a Janus-faced economy, a deep recession in the state sector and a very encouraging boom simultaneously in the private and informal sectors. In the sector of the state you see a continuing contraction of the productive activities, galloping inflation, a steep rise of unemployment, a huge balance of trade deficit, a growing state budget deficit, permanent fall of real wages, increasing income differentiation, a growing pauperization of the population, bad financial discipline, and falling population, bad financial discipline, and

falling, bad financial discipline, and falling investment rates (actually disinvestment is taking place in many enterprises).

By contrast we have experienced significant prosperity in the private and informal sectors over the past two or three years, a very quick expansion, falling inflation rates and growing employment. At the same time, on the macro-level we see a current account surplus, growing western exports, acceleration of the inflow of western capital, increasing currency reserves, rising propensity to save in the households, revaluation of the Hungarian currency, and improving economic expectations of the population and the entrepreneurs. Something like a private sector and fiscal paradise and a state sector nightmare. This is a very strange ambiguity in our transforming economy. The main reason I think is dual. One is a rather consistently executed monetary and fiscal policy on part of the government, a policy which may kill the patient while the surgery operation is successful. The second reason is that the informal sector and the new private entrepreneurs were reacting to the new conditions in an exemplary and, in a sense, unexpected way. The result is also unique in Eastern Europe: no shortages, no monetary overhang, no dollarisation of the economy, no general insolvency, no hyper-inflation, and no shock treatment.

This has contributed to the privatisation of the economy because the state sector has been spontaneously contracting and the private growing even without direct privatisation moves. Strict monetary and fiscal policies, however, were tending to delay very important government decisions concerning privatisation and the reform of public finances. Actually this is an economic stagnation with hopes based on the private sector. The

only problem is that the success in the private sector is largely due to the heritage of the almost thirty year long Kádár regime as we called the old communist regime in Hungary. The entrepreneurial culture is not a product of the last two years. This is a product of the informal economy which was invigorated, or at least tolerated, by the communists, and also a result of the legal infrastructure, that is, of those laws which were enacted

in 1987/88 on the corporations, the new tax system, and so on. The stock market, the two-level banking system and a lot more, all stem from late Kádár regime policies, too.

**“If you look at the Hungarian economy now, you find a Janus-faced economy, a deep recession in the state sector and a very encouraging boom simultaneously in the private and informal sector.”**

measures, is also a result of the social atomisation and the entrepreneurial leanings of the late communist regime.

### Accelerating Growth or Privatisation?

What the new regime added, mostly by accident, to these favourable conditions is three things. One is tolerating unemployment on a large scale which was a taboo under the communist system. Second is a toleration of privatisation, also, on a large scale. But these two developments are ambiguous as I will show soon. The third thing is actually a kind of gift given to the new regime: the old lobbies, which could have pressed for economic expansion, new state investment projects, industrial policies, protection of the market and so on, were confused by the political transformation. They lost their integrity, they lost their internal solidarity, so from this point of view, the new regime could almost start with a blank sheet.

Unfortunately, these interest groups are re-emerging and pressing for a halt of austerity measures and the acceleration of economic growth. But if you start economic expansion too early then you can jeopardise the results of restrictive policies. Unfortunately, the new government has not only a sophisticated monetarist ego but also an expansionist-populist ego, and there are signs now, that the austerity policies will be replaced by a kind of export-led growth drive, again based on agriculture and some selected industries under the banner of protecting the internal markets.

Naturally, the new regime cannot be blamed for the poor performance of the state sector because the economic crisis was also inherited. From this point of view, the new government's mistake is (what was a merit in the case of monetary restrictions) that it did not disturb much the execution of the old policies. A much bigger problem is, I think, that it did not contribute to the further liberalisation of the economy. The government could have accelerated the liberalisation process in two major fields: it could have taken courageous steps in privatisation policy and in the reform of public finance. In both cases there is much more political hesitation than expected.

In Hungary the new regime was also presented by the old one with a privatisation technique which is called 'spontaneous privatisation'. In Poland it is called '*nomenklatura* capitalism' because the former economic and political leaders become shareholders and/or managers in the privatised state enterprises. The old ruling elite can in this way literally capitalise its political privileges into economic ones. To stop spontaneous privatisation in a system, in which the managers are technocrats (like in Hungary or Poland) rather than political commissars (like in the Soviet Union or Albania) is a very risky decision. To go instead for a state-led privatisation

project, which is called by the opposition in Hungary the 'regulation of de-regulation' and the 'statisation of privatisation' is an even more risky step, but — after some hesitation — this was taken by the government. Many analysts say that the State Privatisation Agency works in Hungary like a personnel department of the state, hiring and firing the managers, somehow replacing the old sectoral ministries. At the same time, the new government

has started presenting its political friends with government jobs and corporate board membership, creating thereby a new constituency, a new protectionist, nepotist network.

The government would like to retain a significant part of the state sector in the form of huge holding enterprises following the Italian or Japanese pattern. This already shows how ambiguous is its approach to big business, I mean, in the private sector. Fortunately, the government did

not opt for the Czech way of distributing the state assets to the population to create a new entrepreneurial middle class. As soon as the existing small businesses begin to grow, however, many politicians cannot conceal their suspicion about the concentration of capital, especially if foreign businessmen are also concerned. What the entrepreneurs see is that the new regime would like to reserve the right to decide who 'deserves' to become a capitalist in Hungary. This is a sort of dependent, paternalist capitalism, in which the entrepreneurs do not feel at ease. From time to time, they are threatened by tax increases, confronted with egalitarian expectations, subjected to political blackmail. The government seems not to have learnt from the first major civil disobedience movement after 1989, the taxi drivers' blockade in 1990. Today, as the polls show, the liberals would gain a two-third majority in the Parliament — a great shift if we compare this with their one-third election result two years ago.

## *“The new government has started presenting its political friends with government jobs and corporate board membership creating thereby a new constituency, a new protectionist, nepotist network.”*

Liberalisation? Yes, but, but, but... The same political hesitation applies to the budget structure and public finances. The main point here is that the government failed to privatise even some of the welfare schemes, to decrease income redistribution through the state budget, to modernize the transfers, and so on.

### Populist Pressures

It is not only political cautiousness that explains why the government were not taking risks. There is also an ideological element in it and this really took social scientists in Hungary by surprise. We really did not expect this great upsurge of populist ideologies. We thought that market socialism was the last third-way

experiment in Eastern Europe. In the nationalist-authoritarian model, the main enemy is the 'westernizers' (I was glad to see the name of your Urban Foundation because these 'aliens' are called in Hungary the 'urbans'). The urbans are often portrayed by the national fundamentalists as Bolshevik-liberal (*sic!*) experts who preach rivalry and differentiation, lacking social competence, who are alien, cosmopolitan elements, supporting 'predatory capital'. The latter is a pejorative word for venture capitalists. This is the image of the enemy. The image of the friend includes smallholders, small entrepreneurs who have nevertheless certain socialist values, who are ethnic Hungarians, who would like to establish what was called between the two wars "Garden Hungary". This is a powerful ideological current in the ruling party, the Hungarian Democratic Forum.

Well, if you want to understand this type of romantic anti-capitalism, you have to know what the starting position of the new regime was. There was a huge legitimisation deficit, first of all because the populist-nationalist groups were initially supported by the communists. Then these groups made a sharp turn against the old regime which was, by the way, not terribly unpopular. There was no revolutionary

enthusiasm, a lot of things were simply given, so to say, free of charge, to the new regime like the collapse of the Comecon and the Warsaw Pact, and the withdrawal of the Soviet troops from the country. Despite their almost two-third majority in Parliament, they had no opportunity for making quick economic successes because of the deep crisis. Most of the symbols of the opposition struggle with the communists belong to the liberals — the populists were no heroes.

Similarly, the most symbolic act of the revolution, when Hungary opened the borders for the East Germans, was performed by the communists.

The new political elite had to create its constituency retroactively. At our round-table talks in Poland, Germany, and Hungary, that is, at our Eastern European 'Codesa' talks there were only pre-parties.

They were in an embryonic stage as free political parties. Therefore, when some of these parties won the elections, they had to create their constituency, so they had to offer something. What could they offer? For sure, they could play on anti-communism. This is what they are still doing, though with decreasing efficiency, they simply turned against their old allies. So there is a lot of talk about communist crimes and applying justice retroactively, about purging the state apparatus and the media.

This is not the old Kádárist 'Social Contract'. This is not the cynical 'live and let live' policy. This is not pragmatic at all, very risky and practically self-destroying for this government. Nevertheless, I do not want to talk about a new authoritarian regime in Hungary (or in any of the Eastern European countries). There are strong authoritarian temptations but, at the same time, from a sociological point of view the Hungarian government lacks important allies. First of all, corporatist institutions are lacking: capital and labour organisations. So far there are firm constitutional guarantees, and the role of the military is unimportant. And also there are built-in guarantees in the European integration process. Hungary was portrayed under the

old regime as the happiest barrack in the communist camp. Perhaps we can remain one of the happiest barracks of the post-communist camp.

By way of conclusion, I would like to point to some lessons drawn from the Hungarian experience of the last three years which may be common- place for you, but they were surprising for us Eastern Europeans. One lesson is that democracy may give rise to illiberal forces very rapidly. Liberalization involves political costs which cannot be accepted by populist regimes. Secondly, democracy can sustain economic stagnation. An authoritarian government may allow for the development of small entrepreneurship but the expansion of the latter and its conversion to big

**“One lesson is that democracy may give rise to illiberal forces very rapidly.”**

business may be risky for the rulers. Thirdly, democracy may revitalise obsolete ideologies which we thought had died out long-ago.

On the one hand, we have a new regime with illiberal inclinations, on the other hand, a rather healthy entrepreneurial stratum; if you please, a kind of civil society. From this point of view this is a dual economy

and a dual society. The fact that the civil society is more liberal than the regime is not a new phenomenon in Eastern European political history. There is, however, a new lesson for Hungarians, I think. If the public has failed in the first free elections

by supporting the populists, then in the second one, in two years from now, we can correct this error.

## DISCUSSION ON THE HUNGARIAN EXPERIENCE

### On neo-liberal and social-democratic scenarios

**Q** One thing you said at the beginning which you didn't really pick up in more detail was that in the last two years, both the neo-liberal and the social-democratic hopes were assailed and I wonder if you could say a little more about that.

When I mentioned that the neo-liberal and the social-democratic scenarios have failed, I think it is easier to see the social-democratic failure. If you look at the party structure in Eastern Europe you will only find a few countries where major social-democratic parties work. This is perhaps again a kind of linguistic consequence of the old system. Anything that was connected with the word 'socialism' was voted down by the people in the first free elections. In anticipation of this, the names were changed and we had a whole lot of liberal parties in Eastern Europe which are pursuing in certain cases social-democratic policies, usually not left-wing policies.

So we have some kind of social-democratic input in politics but these parties are typically not ruling parties. The main paradox is the following: in a deep economic crisis there is a great pressure from below for social-democratic style policies (welfare schemes, industrial policy, etc.), but — because of the same crisis — there are no resources to support such policies.

Concerning the liberal scenarios, you might remember that the Western newspapers were full of headlines, "Maggie Thatcher Goes East", "Chicago Boys in Prague" and so on. If you look more closely at what is happening in Eastern Europe in the economic field, you see quick liberalisation moves in many countries, using sometimes shock treatment techniques, but these are partial shock treatments. These are partial liberalisations. In countries like Poland and Hungary for example, deregulation is not accompanied by a privatisation campaign, and where it is accompanied by quick privatisation moves, like in Czechoslovakia, there the programme is targeting what

the Germans call *Volkskapitalismus* rather than any libertarian model. The Czech 'voucher' privatisation is built on the idea of universal accessibility and free-of-charge distribution of state assets to the population. The advantage of the voucher technique is that it is quick, very quick, but the main problem is, as you may know, the ultimate dispersion of shareholder's power and the resulting low quality of supervision and management. In addition, privatisation may be accompanied, like in Poland, with a collectivist concept of workers' self-management or industrial democracy, and workers may have a privileged access to these vouchers.

So what is portrayed as neo-liberal in these countries, is first of all, partial, secondly, partly state-administered and thirdly complemented with collectivist ideas. This is why I talk about the failure of the libertarian or neo-liberal visions.

There is, however, a new invention called 'social liberalism'. Some liberal parties in Eastern Europe would follow two major values, economic freedom and solidarity. This is based on a new, 'communitarian' (egalitarian) vision of liberalism. I think this is a rather shaky concept and to experiment with it is rather risky. We Eastern European liberals are really in a trap. We do want to liberalise the system but do not know how to fix the social net which would protect those who fall out from this liberalisation process. How should we marketise and privatise without a further polarisation of the society? There is a search for a new paradigm now in Eastern Europe and this is perhaps the first case when we can perhaps contribute to the general debate in the world about how liberalism can be re-evaluated to include certain communitarian values and some welfare orientation.

### On the failure of market socialism

**Q** Hungary and Yugoslavia were two Utopias of market socialism. Some people still think in terms of

these experiments of liberal communism. Why did these experiments fail?

No doubt about it, they failed even if we called this failure with some national pride the 'most successful failure'; successful because it created the best preconditions in Eastern Europe for a liberal transformation. First of all, the underlying theoretical hypothesis was mistaken: the

proponents of the market socialist project wanted to mix the market with state planning, in other words, the 'invisible hand' with the 'visible fist', as we said in Hungary. This was an attempt to simulate liberalization, and introduce market reforms without privatisation and political democratisation.

**“What the entrepreneurs see is that the new regime would like to reserve the right to decide who 'deserves' to become a capitalist in Hungary.”**

Kádár regime after the 1956 revolution was not compatible with the programme of limited liberalization. When you started the liberal reforms you could keep your promise of providing 'carrot' for a while but at a certain point you hurt the vested interests of important groups in the *nomenklatura*. Then you took the 'stick' and slowed down the reform process but then the carrot became smaller. In order to increase the size of the carrot and secure political stability you had to restrict the power of part of the ruling elite, and so on and so forth. On one hand, the reforms had their own inertia, on the other, you always had to offer bigger and bigger carrots to the people. This was a cyclical stop-go process, and sooner or later you had to run out of your economic and/or political reserves. In the end, instead of combining the advantages of plan and market, you coupled government failures with market failures.

### On unemployment and industrial policy

**Q** How do you cope with the problem of unemployment in your country?

Statistically, from 1 per cent, the unemployment rate has gone up to 12 per cent in the last three years which is socially almost unbearable. Hopefully, part of the unemployed find some employment in the private or informal sectors. Nonetheless, those who fall through the social safety net may well remain at the bottom of the society for a long time. The old social institutions of the state (which were poor anyway) no longer work, the new, partly marketised welfare schemes have not been introduced yet. There is a vacuum, and the government cautiously plays on time. The vulnerable groups (women, gypsies, refugees, unskilled, etc.) remain vulnerable.

At the same time, we have very bad experiences with bureaucratic job creation because

of the old industrial lobbies. Now new lobbies are emerging through parliamentary representation. So far the lobbies have consisted of the regional communist party secretary and the local industrial and trade union bosses. They formed an unholy alliance, a kind of communist-type of corporatist pressure group. At this point, we have our new regime, with new members of parliament, new local party leaders, and they are promising employment, they are promising job creation, and they are lobbying for that.

There is no industrial strategy in most of the Eastern European countries. The main strategy is dismantling the old industrial structure from a deregulation point of view but restructuring programmes are lacking. Maybe, fortunately. The market is doing very good things spontaneously: dismantling the heavy industries, dismantling the military industry, dismantling the sunset industries which were kept alive artificially. So we have some real success stories. Nevertheless, there is an uncertainty concerning industrial policies because we don't know which are the industries to be developed. As opposed to the East Asian case, Eastern Europe doesn't see its role in the future world economy. Should Hungary become say, a tourist paradise? Should it be

a computer-land? There is no new technological revolution which these newly modernising countries of Eastern Europe can join.

## On land reform and restitution

**Q** *Did you plan a new land reform after 1989 in Hungary?*

**“Naturally, the new regime cannot be blamed for the poor performance of the state sector because the economic crisis was also inherited.”**

The agricultural sector was one of the areas of success under the communist regime. The heavily subsidised agricultural sector was one of the main sources of our ‘consumerist’ communism in Hungary. At the same time, my country has lost its agricultural markets in the East. The Soviet market has totally collapsed and we are

trying to join the European Community which suffers from over-production as you know, and to which our over-blown agricultural sector is not the best entrance ticket.

Therefore, a little disintegration of agriculture is perhaps not bad. But this was not the main purpose of the Smallholders Party which as a member of the ruling coalition pressed for land restitution. According to the new law there is a limit to the size of land you can get back in kind or in bonds. These bonds are now entering the stock market and you can exchange them for the shares of some privatised state enterprises.

Unfortunately, land restitution re-legitimises the peasant parties. In the middle of Europe we see peasant parties, which do not belong to the modern political formations. I think we will witness the emergence of these parties, very soon in the former Soviet Union, too. These are again new constituencies for the government, and they are ‘convinced’ by the regime through restituting nationalized assets. In addition to the former landowners, the church has also got back a great deal of its former property.

## On civil society after the revolution

**Q** *How would you characterize the power of civil society in Hungary?*

Civil society in Eastern Europe is first of all informal economy. In other words, entrepreneurs and some extra-party political and social movements, and — if you please — the church, the family and so on. We have very few entrepreneurial associations and non-government organisations. There is also a big trouble with the political side of the civil society.

I shall talk about the political movements and not about the church now. The church is not so important in Hungary as in other Eastern European countries and it is more compromised because of the collaboration with the old regime.

Actually, we had a lot of independent political movements before 1989. This is one of the paradoxical affairs of the Eastern European revolutions. There was a rapid party formation process which really swallowed these movements, and now we have sharp conflicts within the parties between the fundamentalists who would like to stick to the old ‘informalist’ forms of political behaviour, and the new pragmatists. Bureaucratization seems inevitable in the parties, so there are a lot of disappointed people who do not find their places in the political spectrum. Moreover, even the liberals who are in opposition make some morally and perhaps politically questionable agreements with the ruling coalition. This in turn leads to a general distrust of the political system, and eventually to new social movements. New autonomous/alternative groups, religious sects are mushrooming — now not against the communists but against the ‘partocracy’ as they say.

## On the ‘informal economy’ in Hungary

**Q** *What does ‘shadow economy’ mean in the Hungarian context?*

You know, this is a very tricky thing because shadow economy in most communist economies is a broader term than the usual Western informal economy. It is not only illegal from the point of view of taxation but it is also a way of collaboration and co-existence with the state sector.

The best example in Hungary would be the agricultural sector and the small household plots which were given to the peasants in the land reform after the 1956 revolution. The peasants could use part of the capital of the socialist cooperatives for their own purpose. The labour-intensive items like meat and fruit were produced predominantly in the small household plots in the shadow of the cooperatives. These goods were marketed by the peasants

themselves. Or to give another example, there were very sophisticated institutions called intra-enterprise associations in which, this was a major invention of the 1980s, the workers could stay after working 8 hours in the factories using the technical equipment of the factory, and for a higher wage they could produce the same goods as during the normal working hours.

This was one of the essential points of the market socialist project, but there was one taboo, ownership. Ownership was maintained in the hands of the communist party-state, but there was a hidden or clandestine privatisation process as well. Therefore it is very difficult statistically to measure the extent of the shadow economy. A figure of 30 per cent of the GDP is a more or less accepted by Hungarian social scientists. This is not only the private sector, I mean the institutionalised, legalised private sector, but rather the informal economy, small family businesses in the shadow of the state sector. After 1989 the proportion of the shadow economy was not diminishing but, on the contrary, it was increasing. This demonstrates the fact that the illegal entrepreneurs do not hurry to legalize themselves. The state sector being still very large, they find comfortable niches in the shadow markets.