The Political Economy of Neoliberal Transformation in Hungary: From the ‘Transition’ of the 1980s to the Current Crisis

Thesis Submitted for the Degree of Doctor of Philosophy (PhD)

Adam Fabry
Department of Politics and History
Brunel University
2014

I declare that the work presented in this thesis is my own, except where due and accurate acknowledgement of another source has been made.

(Adam Fabry)

The word count of this thesis does not exceed the maximum limit of 100,000 words (excluding bibliography).

Abstract

This thesis provides an original contribution to ongoing debates within scholarly Political Economy and Area Studies literatures on the (neoliberal) transformation of the Hungarian political economy. Within this literature, the ‘transition’ to a (free) market economy and democracy is commonly dated to the *annus mirabilis* of 1989. The development of the Hungarian political economy since then has widely been considered as a ‘success story’ of (neoliberal) transformation and presented as model to be emulated by other countries in Central and Eastern Europe and elsewhere in the world.

This thesis challenges this consensus. Drawing on central concepts in Marxist political economy, in particular state capitalism theory, and primary sources in Hungary, we argue that neoliberalism was not simply an ‘imported project’, which arrived ‘from the West’ on eve of the regime change in 1989. Rather, it emerged ‘organically’ in Hungarian society in the 1980s, as a response by domestic political and economic elites to the deepening economic and political crisis of the Kádár regime. The essential aim of the ‘neoliberal turn’ was thus to reconfigure the Hungarian political economy in line with exigencies of the capitalist world economy, while at the same time ensuring that the ‘transition’ went as smoothly as possible. As such, while at one level obviously a repudiation of past policy, policymakers in Budapest pursued the same objectives as central planners under ‘actually existing socialism’.

For much of the 1990s and the early 2000s, this Faustian bargain proved relatively successful, as the Hungarian political economy became a model of (neoliberal) transformation in the region. However, since the mid-2000s, the inherent contradictions and limitations of Hungary’s neoliberal regime of accumulation have become increasingly evident. This has been confirmed by events since the onset of the global economic crisis, as Hungary has rapidly moved from being an erstwhile ‘poster boy’ of (neoliberal) transformation to a ‘basket case’.

Acknowledgements

The completion of this research project would not have been possible without the support of many to whom I would like to express my gratitude. To begin with, I would like to thank Gareth Dale, my first supervisor, whose continuous encouragement, critical insights, and patience, has been invaluable throughout this period. I am also grateful to Peter Thomas, my second supervisor, whose comments and suggestions have been very helpful in improving the drafts of several chapters. In editing and revising previous chapters of this thesis, I was also fortunate to draw on comments and insights from Alexander Anievas, Alex Boican, Mattias Börjesson, Celine Cantat, Aude de Caunes, Paolo Chiocchetti, Lorenzo Fusaro, Stathis Kouvelakis, Sally Labern, Bue Rübner-Hansen, Luke Stobart, and Corine Wood-Donnelly – they have been the best of comrades. Lorenzo and Paolo, in particular, have been of great support in the final editing process – *grazie mille compagni!* Also, I am thankful to Brunel University for having provided much-needed financial support for this project.

Much of this thesis has been written at the British Library in London, whose staff I would like to thank for bearing with me throughout these years. I would also like to thank Ushma Gudka and Amreen Malik, within the School of Social Sciences, Brunel University, for their kind assistance with regard to the numerous administrative hurdles that I have faced over my years at the university. In Hungary, I would like to thank György Földes, Mihály Koltai, Tamás Krausz, Mária Palasik, Erzsébet Szalai, and Gáspár M. Tamás, for having welcomed me during my visits to Budapest and providing me with useful insights on the politico-economic trajectory of Hungary in the 20th and early 21st century.

I would also like to thank my family, in particular my mother, Eva, and my father, Paul, for their continual emotional and financial support throughout this project. Finally, but not least importantly, I would like to thank my beloved wife Marina Delponti – without whom I would not be writing these lines in the first place. *Te amo, mi vida!*

I dedicate this thesis to my late grandmothers: 'Ike' (1919-2012) and 'Nagyi' (1918-2013).

You will be in my heart forever.

Table of Contents

List of Tables and Figures

ABBREVIATIONS

ÁVH	*Államvédelmi Hatóság* (Hungarian State Protection Authority)
CEE	Central and Eastern Europe
CIS	Commonwealth of Independent States
CMEA	Council for Mutual Economic Assistance (also known as COMECON)
EBRD	European Bank for Reconstruction and Development
ECB	European Central Bank
EU	European Union
FDI	Foreign Direct Investment
FIDESZ	*Fiatal Demokraták Szövetsége* (Alliance of Young Democrats)
FKGP	*Független Kisgazdapárt* (Independent Smallholders' Party)
GDP	Gross Domestic Product
GDR	German Democratic Republic
HAEF	Hungarian-American Enterprise Fund
IMF	International Monetary Fund
Jobbik	*Jobbik Magyarországért Mozgalom* (Jobbik, Movement for a Better Hungary)
KDNP	*Kereszténydemokrata Néppárt* (Christian Democratic People's Party)
KISZ	*Magyar Kommunista Ifjúsági Szövetség* (Hungarian Young Communist League)
KSH	*Központi Statisztikai Hivatal* (Hungarian Central Statistics Office)
MDF	*Magyar Demokrata Fórum* (Hungarian Democratic Forum)
MDP	*Magyar Dolgozók Pártja* (Hungarian Workers' Party)
MIÉP	*Magyar Igazság és Élet Pártja* (Hungarian Justice and Life Party)
MKP	*Magyar Kommunista Párt* (Hungarian Communist Party)
MNB	*Magyar Nemzeti Bank* (Hungarian National Bank)
MSZMP	*Magyar Szocialista Munkáspárt* (Hungarian Socialist Workers' Party)
MSZP	*Magyar Szocialista Párt* (Hungarian Socialist Party)
NATO	North Atlantic Treaty Organization
NEM	*Új Gazdasági Mechanizmus* (New Economic Mechanism)

OECD	Organisation for Economic Co-operation and Development
SAPRIN	Structural Adjustment Participatory Review International Network
SZDP	*Szociáldemokrata Párt* (Social Democratic Party)
SZDSZ	*Szabad Demokraták Szövetsége* (Alliance of Free Democrats)
TÁRKI	*Társadalomkutatási Intézet* (Institute for Social Research)
UNCTAD	United Nations Conference on Trade and Development
UNDP	United Nations Development Programme
USAID	United States Agency for International Development
WTO	World Trade Organization

INTRODUCTION

Neoliberalism and Hungary's 'Double Transformation': A Contentious Relationship

It is more than two decades since the former Soviet-style economies of Central and Eastern Europe[1] (CEE) experienced their so-called 'double transformation'[2] from central planning and authoritarian one-party regimes to the market economy and parliamentary democracy. Since then, the ongoing restructuring of the region has been the subject of successive waves of historical analyses and debates in the International Relations, Political Economy, and Area Studies literatures, as new events and processes have occurred: the 'transformational recession'[3] that swept the region following the demise of the Soviet bloc and puzzled economists and policymakers in the East and West alike, the further economic and political re-integration of the region with the capitalist world economy in the late 1990s and early 2000s, as marked by the accession of former Warsaw Pact members to the

---

[1] Finding an apt definition for the geographical region east of the Elbe and west of the Ural mountains has been the cause of much academic and popular debate over the centuries. 'Invented' as 'Eastern Europe' by travellers, philosophers, and politicians in the 18th century, the region has come to be known as a distinct geopolitical, socio-economic, and cultural entity, inferior to the economically, politically, and culturally more advanced countries of 'Western Europe'. This view was reinforced during the Cold War, when politicians, scholars, and journalists in the 'West' used the term to describe the countries that found themselves 'East' of the Iron Curtain, which divided Europe into two parts. However, as the intellectual and cultural historian Larry Wolff has pointed out his seminal *oeuvre*: *Inventing Eastern Europe: The Map of Civilization on the Mind of the Enlightenment*, Stanford, CA: Stanford University Press, 1994, the notion that 'Eastern Europe' represents a homogenous entity, distinguishable from 'Western Europe' is a '*demi*-Orientalist' construction *par excellence*, deeply embedded in a wider process of the 'mapping' and colonial expansion of dominant powers in 'Western Europe' across the world (see also Ben Fowkes. *The Post-Communist Era. Change and Continuity in Eastern Europe*, Basingstoke: Macmillan Press, 1999.
). Having said this, unless stated otherwise in the text, this thesis utilises the term 'Central and Eastern Europe' to describe the countries of the region.

[2] The term is taken here from Otto Holman, 'Integrating Eastern Europe: EU expansion and the double transformation in Poland, the Czech Republic, and Hungary', *International Journal of Political Economy*, 1998, Vol. 28, No. 2, pp. 12-43..

[3] The term was originally coined by the liberal Hungarian economist János Kornai in 'Transzformációs visszaesés. Egy általános jelenség vizsgálata a magyar fejlődés példáján', *Közgazdasági Szemle*, 1993, Vol. 40, No. 7-8, pp. 569-599.

North Atlantic Treaty Organization (NATO[4]) and the European Union (EU[5]), and the inflow of foreign direct investment (FDI) and multinational corporations, and, most recently, the negative, albeit variegated impact of the global economic crisis on the CEE economies. And rightly so: the symbolic and historical significance of these events is difficult to overstate.

In much of the so-called 'transformatology' literature, Hungary has been depicted as a 'poster boy' of (neoliberal) transformation and promoted as a model to be emulated by other countries in the region and elsewhere in the world, by virtue of its rapid, but politically peaceful 'transition' to the market and parliamentary democracy. This is said to have resulted in the creation of a dynamic market economy, geared towards international trade and capital inflows, together with the institutionalisation of a stable democratic regime with relatively generous social welfare policies. This process has arguably been driven by *external* factors and forces, such as the International Monetary Fund (IMF), World Bank, the EU, hegemonic Western states, and multinational corporations, with the consent of domestic economic and political elites. However, since the onset of the global economic crisis in 2007-2008 events have radically departed from the script. Although the impact of the crisis has been *uneven*, both *between* different regions of the capitalist world economy and *within* individual states, it is today widely recognised that the Hungarian political economy was among the hardest hit by the crisis.[6] As a result, Hungary's previous *bon renomée* amongst international policymakers and business circles has quickly evaporated in recent years. Indeed, experts, journalists, and policymakers have frequently singled out the country as one of the *bêtes noires* of the ongoing crisis, together with the

[4] In 1999, the Czech Republic, Hungary, and Poland became the first 'post-communist' states to join NATO. Five year's later they were joined by by Bulgaria, Estonia, Latvia, Lithuania, Romania, Slovakia, and Slovenia. NATO's eastward expansion continued in 2009, when Albania and Croatia became the youngest members of the organisation.

[5] In 2004, eight ex-Soviet bloc states (including Hungary) joined the EU. They were followed by Bulgaria and Romania in 2007. The latest step in the EU's eastward enlargement was taken on 1 July 2013, when Croatia became the 28th member of the organisation.

[6] Dorothee Bohle and Béla Greskovits, *Capitalist Diversity on Europe's Periphery*, Ithaca, NY: Cornell University Press, 2012, pp. 223-258; Joachim Becker and Johannes Jäger, 'Development Trajectories in the Crisis in Europe', *Debatte: Journal of Contemporary Central and Eastern Europe*, 2010, Vol. 18, No. 1, pp. 5–27; Gareth Dale, Gareth and Jane Hardy, 'Conclusion: The "Crash" in Central Eastern Europe', in *First the Transition, Then the Crisis: Eastern Europe in the 2000s*, edited by Gareth Dale, London: Pluto Press, 2011, pp. 251-263; World Bank, 'Overview of Europe and Central Asia (ECA) Region', September 2009, and *id. Turmoil at Twenty: Recession, Recovery, and Reform in Central and Eastern Europe and the Former Soviet Union*, prepared by Pradeep Mitra, Marcelo Selowsky, and Juan Zalduendo, Washington, DC: World Bank, 2010. The impact of the global economic crisis on the Hungarian political economy is discussed in further detail in Chapter 6.

so-called 'PIGS' economies of Portugal, Italy, Greece, and Spain.[7] Hungary's 'return to fame' (albeit this time in a pejorative sense) stems from the fact that the signs generally associated with the current crisis – financial meltdown, falling levels of economic output, the introduction of brutal austerity measures in order to cut public debt, growing unemployment and social inequalities, and a widespread populist backlash against (neoliberal) capitalism, parliamentary democracy, and the 'West' (together with its political representatives at home and abroad) – are all present in an exacerbated form in the country.

The depressing development of the Hungarian political economy in the wake of the global economic crisis has also brought about emotive renunciations of 'market fundamentalism'[8] from across the intellectual and political spectrum in Hungary, thereby showing the continued importance of *domestic* social forces in shaping the development of the Hungarian political economy. However, recent economic and political developments in Hungary are not only causing a headache for Hungarian commentators and policymakers, but are also being watched with increasing puzzlement and alarm by academics, journalists, and policymakers abroad. Thus, in a speech in March 2009 US President Obama warned Americans about the risk that the 'problems that exist in emerging markets like Hungary or the Ukraine' might have 'enormous ripple effects that wash back onto our shores'[9]. The question of the relationship between 'neoliberalism' and transformation economies such as Hungary is, however, not only debated amongst mainstream academics and politicians in the corridors of power in Washington, Brussels, and Berlin. For example, drawing on parallels from earlier historical examples, the Hungarian-born critical sociologist Iván Szelényi has argued that the current economic crisis is likely to signal a shift from a neoliberal model of capitalism based on economic growth through mass consumption towards a model characterized by more state regulation and 'less consumption of goods with better quality'.[10] More recently, Umut Korkut, a Turkish-born

[7] The acronym has frequently been invoked in recent years by investors, economists, and journalists to refer to the economies of Portugal, Ireland, Italy, Greece, and Spain, suffering from high sovereign debt levels.
[8] Richard Kozul-Wright and Paul Rayment, *The Resistable Rise of Market Fundamentalism: Rethinking Development Policy in an Unbalanced World*, London: Zed Books, 2007; George Soros, *The Crisis of Global Capitalism: Open Society Endangered*, London: Little Brown, 1998; Joseph Stiglitz. *Globalization and its Discontents*, London: Allen Lane, 2002.
[9] Barack Obama. 'Remarks by President Obama and the British Prime Minister Gordon Brown After Their Meeting', 3 March 2009, Washington, DC: Office of the Press Secretary, The White House.
[10] Iván Szelényi, 'A globális pénzügyi válság és Közép Európa nyomorúsága', *Népszabadság*, 21 March 2009..

expert on Hungarian politics and democratic transition in CEE, has provided a more pessimistic account, warning that 'in Hungary, liberalization got a backlash from conservative right-wing and extreme-right forces. … [who] not only repudiate neoliberal economic transformation but also scorn the tenets of political liberalization as immoral and degenerate.'[11]

Main Argument of the Thesis

Hence, the neoliberal transformation of Hungary and other political economies in CEE is an important topic, which has been the source of successive waves of analysis and debate in popular and academic discourse. However, as I explain further in Chapter 2, the focus of much of this literature remains remarkably narrow. Much of this literature has been written by policymakers and there has been little attempt in theorising dimensions of the transformation that are not directly relevant to policymaking. Moreover, although there has been increasing recognition of the impact of *international* and/or *transnational* social forces and pressures on the trajectory of CEE economies, there has been little attempt to historicise the transformation. Instead, most transformatologists simply take for granted that the 'transition' began in 1989. As a result, much of the literature is ultimately incapable of providing a theoretically informed analysis of the deeper historico-material and politico-ideological origins, contradictory dynamics, key agents, and variegated outcomes of neoliberalism in Hungary and elsewhere in the region due to its emphasis on either side of the capitalist vs. *non*-capitalist divide in what was arguably a period of their concrete coexistence.[12]

In contrast, it is argued here that the origins of Hungary's transformation *precede* the formal 'transition' to the market and parliamentary democracy in 1989 and can more satisfactorily be explained *in relation to* the wider neoliberal restructuring of the capitalist world economy from the mid-1970s and onwards. As such, neoliberalism was not simply

[11] Umut Korkut, *Liberalization Challenges in Hungary. Elitism, Progressivism, and Populism*, New York, NY: Palgrave Macmillan, 2012, p. 2.
[12] For notable exceptions, see Gareth Dale, 'Introduction: The Transition in Central and Eastern Europe', in *First the Transition Then the Crash: Eastern Europe in the 2000s*, edited by *id*., London: Pluto Press, 2011, pp. 1-20; Jane Hardy, *Poland's New Capitalism*, London: Pluto Press, 2009; Stuart Shields, *The International Political Economy of Transition: Neoliberal Hegemony and Eastern Central Europe's Transformation*, London: Routledge, 2012; Gáspár M. Tamás, 'Counter-revolution against a counter-revolution', *Eurozine*, 2007. Available on: http://www.eurozine.com/articles/2007-09-18-tamas-en.html (last accessed on: 28 December 2013).

imported 'from outside' *after* the 'regime change' (*rendszerváltás*) in 1989, but emerged 'organically' in Hungarian society in the 1980s, as a response by domestic political and economic elites to the deepening economic and political crisis of the Kádár regime, in the wake of increasing pressures of geopolitical and economic competition with the 'West' and growing disbelief in the Soviet model amongst members of the ruling *nomenklatura*[13]. The essential aim of the 'neoliberal turn' was thus to improve conditions for capital accumulation, while ensuring that Hungary's transition went as smoothly as possible. As such, while at one level obviously a repudiation of past policy, policymakers in Budapest pursued the same objectives as central planners under 'actually existing socialism'[14].

Crucial to this argument is a wider understanding of Hungary's position within the world economy and the international state system in the period between 1945 and 1989. To provide this context, this thesis draws on the insights of state capitalism theory, according to which Hungary and other Soviet-style societies, despite official claims to the opposite, showed marked *similarities* with their 'capitalist' competitors in the 'West', including: the separation of the means of production from the producers, persistence of wage labour and its subsumption to capital, exploitation, hierarchic division of labour, money, rent, and the compulsive drive to accumulate capital – an imperative derived from the systemic pressures of economic and geopolitical competition with the 'West'. This 'regime of accumulation'[15] was neither 'irrational', nor was it 'unique' to 'Soviet-style economies'.

[13] The *nomenklatura* referred to those who held senior positions in the Communist party, the state and economic apparatuses. See Gareth Dale, *Between State Capitalism And Globalisation, The Collapse of The East German Economy,* Bern: Peter Lang AG, 2004, p. 19, fn 27.

[14] At this point it is necessary to clarify what we mean by 'socialism'. Drawing on Marx and Engels, 'socialism' is, in this thesis, defined as a socio-economic system in which the working class effectively owns the means of production (the phyisical, non-human inputs used in production, such as machinery, tools, and factories) and where capitalist relations of production have been abolished. Hence, under socialism, production serves to satisfy human needs, not the necessity to accumulate captial and obtain a profit (as under capitalism), and is coordinated through conscious, democratic planning. Finally, in a socialist society, economic outputs are distributed equally to the members of society, according to the principle of 'from each according to his or her ability, to each according to his or her need'. Over the years, numerous political movements across the world have attempted to establish such a system. However, as Marx and Engels emphasised already in *The Communist Manifesto*, socialism could not be established by diktat 'from above', but instead 'the emancipation of the working class must be the act of the working class itself'. Against this background, this thesis does *not* believe that the Soviet-style regimes that existed in Hungary and elsewhere in Eastern Europe from the end of World War II to 1989 were 'socialist' societies, but rather represented a particular form of 'state capitalist' states. On Marx and Engels' conception of 'socialism', see Karl Marx and Friedrich Engels, *The Communist Manifesto*, Oxford: Oxford University Press, [1848]/1992, and Karl Marx, *Critique of the Gotha Programme*, in *Karl Marx and Friedrich Engels: Selected Works, Moscow/London: Progress Publishers and Lawrence & Wishart*, [1875]/1968, pp. 297-317. On the theory of state capitalism, see pp. 71-77 of this thesis.

[15] Michel Aglietta, *A Theory of Capitalist Regulation: the US Experience*, London: New Left Books, [1974]/1979; Robert Boyer, *The Regulation School: A Critical Introduction*, New York, NY: Columbia

Rather, the tendency towards state intervention in the economy was something that was discernible to varying degrees throughout the capitalist world economy, in particular in more ‘backward’ economies, in the period of ‘state capitalism/financial capitalism’ (1873-1929/45) and ‘state capitalism “proper”’ (1945-1973). In Hungary, the role of the state became increasingly important during the interwar years, and this trend was intensified in the aftermath of the World War II, as policymakers in Budapest turned to the state in order to reconstruct the war-ravaged Hungarian economy.

Although ferociously oppressive and exploitative, the Soviet-model proved relatively successful as a framework for capital accumulation in Eastern Europe, as state-led development ‘from above’ contributed to rapid industrialisation, urbanisation, and a general rise of living standards. By the early 1960s, however, the inherent limitations of this model were becoming increasingly visible, as the vast reserves of labour that had enabled rapid economic growth during the phase of ‘primitive accumulation’ were coming to an end. From East Berlin to Moscow there were now increasing calls for economic ‘reform’. In Hungary, the Kádár regime unveiled a comprehensive programme for economic reform, officially known as the New Economic Mechanism (*Új Gazdasági Mechanizmus*, NEM), in 1968. Drawing on the insights of a group of renowned Hungarian reform economists, who were well-versed in neoclassical economics, and advocates of ‘market reformism’ inside the ruling *Magyar Szocialista Munkáspárt* (MSZMP), the NEM brought radical changes to the Hungarian economy by introducing greater freedom for state-owned enterprises, strengthening the role of world market prices in the economy, providing a more flexible labour market, and encouraging gradual (re-)integration with the capitalist world economy through foreign trade. Through these measures, the Kádár regime hoped to overcome the problems facing the Hungarian economy *without* losing its hegemonic power over Hungarian society. Initially, the reforms proved relatively successful, as the Hungarian economy experienced robust economic growth between 1968-1975. However, following mounting pressures from ‘conservative’ fractions within the party-state and wider sections of Hungarian society, as well as from Moscow, the reforms gradually came to a halt from 1972 and onwards.

University Press, 1990; Bob Jessop, ‘Regulation theory: the state of the art’, *New Political Economy*, 2002, Vol. 7, No. 3, pp. 463-472; Alain Lipietz, *Mirages and Miracles: The Crisis of Global Fordism*, London: Verso, 1987.

However, following the onset of the global economic crisis in 1973 market reformist ideas regained impetus among policymakers in East and West alike. Faced with increasing competitive pressures, the leaders of the Soviet bloc sought greater (re-)integration with the capitalist world economy through a policy of importing technologically advanced goods from the West, in return for industrial and agricultural products going in the other direction. The rapid rise in imports would be paid for by loans from Western governments, private banks, and international financial institutions. The Kádár regime supported this strategy, as foreign borrowing seemed feasible, while export-led growth provided an alternative to the introduction of unpopular (and potentially destabilising) austerity measures. However, greater integration with the world economy left the state capitalist economies exposed to their own internal contradictions and the vicissitudes of the world market. As a result, the debt burden of the state capitalist economies rose significantly from the mid-1970s and onwards. Hungary became a forerunner within the Soviet bloc (albeit in a negative sense): by 1987 the country's external debt exceeded US$ 18 billion – the highest in the bloc and one of the highest in the world in per capita terms.

By the early 1980s, policymakers in Hungary and elsewhere in the Soviet bloc were thus caught in a 'double-bind'.[16] Mounting external pressures (geopolitical and economic competition with the West) together with increasing disbelief in the Soviet-model within the ruling MSZMP, in the wake of continuing relative economic decline in the late 1970s and early 1980s, opened up a space, in which, 'proto-neoliberal' ideas and social forces could emerge 'organically' in Hungarian society. By the mid-1980s, a group of young, radical reform economists associated with the influential Institute of Financial Research (*Pénzügykutatási Intézet*), the official research institute of the Ministry of Finance, emerged as one of the key forces for neoliberalisation in Hungary. Also known as the 'Dimitrov Square Boys', in reference to the Karl Marx University of Economics in Budapest (where most its members received their education), the group included such well-known economists as Lajos Bokros, György Matolcsy, and György Surányi, who would all go on to play important roles in the neoliberal transformation of Hungary. Similar to other groups of neoliberal reformers in CEE and elsewhere, the members of this group were well-versed in neoclassical economics, 'worked in tight, entrenched, secluded bureaucratic teams, isolated from society and [were] united by their personal ties and

[16] Dale, 'Introduction: The Transition in Central and Eastern Europe', p. 4.

common social backgrounds.'[17] At the same time, they harnessed good relations with advocates of market reform within the MSZMP *and* the mushrooming Hungarian opposition, *as well as* international financial circles, which provided them with a sense of credibility and trust in reform debates at the time. In 1987, these economists published an ambitious economic reform programme, known as 'Fordulat és Reform', which has been widely acknowledged as the *Absichterklärung* of neoliberalism in Hungary.[18] The document was rapidly naturalised as 'common sense' in academic and public discourse in Hungary and became a 'road map' for the transition. As we conclude in Chapter 4, the essential aim of 'Fordulat és Reform' was to save the ailing Hungarian economy from the 'organic crisis' of state capitalism, while *retaining* the class power on which it rested.

As we demonstrate in Chapter 5, a distinct neoliberal regime of accumulation was gradually consolidated in Hungary in the period between 1990-2006. While *external* forces and pressures – including international financial institutions, such as the IMF and the World Bank, regional bureaucratic organisations, such as the EU, and Western-based multinational corporations – were admittedly important in this process, this thesis argues that *domestic* social forces were essential in ensuring that different economic actors remained committed towards the pursuit of a neoliberal regime of accumulation. This was most evident with the introduction of the drastic austerity measures, also known as the 'Bokros Package', by the socialist-liberal government led by Gyula Horn in 1995, which demonstrated the determination of Hungarian policymakers to 'go through fire and water' in order to push through neoliberal reform.

Although widely unpopular, undemocratic, and socially regressive, the 'Bokros Package' was relatively successful in opening up the Hungarian economy to the exigencies of global capital. Hence, between 1997-2006, the Hungarian economy enjoyed a brief golden age of high economic growth, large foreign capital inflows, and low unemployment. Hungary's neoliberal regime of accumulation thus seemed to function remarkably well – a view that was reflected by the country's accession to NATO in 1999 and the EU in 2004, and

[17] Shields, The International Political Economy of Transition, p. 127. See also Béla Greskovits, *The Political Economy of Protest and Patience: East European and Latin American Transformations Compared*, Budapest: Central European University Press, 1998.
[18] László Andor, *Eltévedt éllovas. Siker és kudarc a rendszerváltó gazdaságpolitikában*, Budapest: Napvilág Kiadó, 2010 pp. 160-161; Iván T. Berend, *The Hungarian Economic Reforms, 1957-1990*, Cambridge: Cambridge University Press, 1990; Zoltán Ripp, *Rendszerváltás Magyarországon, 1987-1990*, Budapest: Napvilág Kiadó, 2006, pp. 27-30; Nigel Swain, *Hungary: The Rise and Fall of Feasible Socialism*, London: Verso, 1992.

reinforced further by the plethora of optimistic assessments provided by experts, investors, and policymakers in both Hungary and abroad. However, in contrast to dominant accounts, we underline the inherent *contradictions* and *limitations* of what we describe as ‘neoliberalism with Hungarian characteristics’. Thus, while widespread deregulation and privatisation contributed to the inflow of much-needed foreign direct investment, which enabled the Hungarian economy to grow by an impressive annual rate of more than 4 percent between 1997-2006, there was little evidence of this growth ‘trickling down’ to the popular masses. Instead, neoliberal restructuring led to chronic underemployment, increasing income inequalities both nationally *and* between different regions, and the entrenchment of poverty in Hungarian society. Making matters worse, by the early 2000s, the sources of economic growth were diminishing, as inflows of foreign direct investment were decelerating in relative terms due to increasing inter-state competition both among the CEE economies *and* globally. This was accompanied by increasingly bitter electoral rivalry between social-liberal and national-conservative political forces. The eruption of massive anti-government protests in the autumn of 2006 was a stark reminder to mainstream economists and policymakers that not everything was going according to the script in Hungary.

The onset of the global economic crisis in 2007-2008 has further demonstrated the inherent limitations of Hungary’s neoliberal regime of accumulation. An erstwhile model of neoliberal transformation in CEE, Hungary has been badly hit by the crisis. The economic crisis has come at a high social cost for ordinary Hungarians and led to widespread public disillusionment and discontent against free markets, liberal democracy, and the ‘West’ (as well as the political parties that have historically favoured neoliberal restructuring). With the socialist-liberal government of Ferenc Gyurcsány discredited by a toxic combination of lies, internal corruption, and the relentless pursuit of unpopular austerity measures, and the labour movement on its knees, resistance against neoliberalism has been channelled by neo-conservative and fascist political forces. The rightward shift of Hungarian politics was formally confirmed in the general elections of 2010, when the socialist-liberal government coalition, which had ruled since 2002, was ousted in from power, in favour of the neo-conservative FIDESZ-KDNP coalition. At the same time, the fascist Jobbik Party, also witnessed an electoral breakthrough, becoming the third largest party in parliament. During its first 18 months in power, the new right-wing government in Budapest, led by the young, mediagenic Viktor Orbán, introduced a barrage of personal changes, laws and decrees, which have alarmed financial markets, politicians, and the liberal press in both Hungary and abroad. While these changes have been branded as 'populist', the argument put forward by this thesis is that they did not represent a fundamental rupture with earlier neoliberal practices, but rather an inflection. In this sense, recent changes in Hungary are not exemptions to developments elsewhere, but are arguably symptoms of a wider shift towards a more 'authoritarian neoliberalism'.[19]

What is Neoliberalism?

In order to answer the questions raised by this thesis, however, we need to be clear about what we mean by the term 'neoliberalism'. Despite the rapidly growing popularity of the term in recent academic debates,[20] this is not as easy as it first might seem, for as critical scholars have pointed out, the term has often been invoked with imprecision, in partly overlapping and partly contradictory ways, in popular and academic debates.[21] The problem is compounded by the fact that 'neoliberalism' is a highly contested and politically loaded term, which, as Jamie Peck et al. point out, has been used more often by its critics, 'as an oppositional slogan, a zeitgeist signifier, and an analytical construct',[22] than as self-ascription by its supporters (*pace* Friedrich von Hayek and Milton Friedman). Indeed, even its enemies have seldom agreed what it was, for example, in state forms or in economic structures that made them 'neoliberal'.

---

[19] The term is here taken from Ian Bruff, 'The Rise of Authoritarian Neoliberalism', *Rethinking Marxism: A Journal of Economics, Culture, and Society*, 2014, Vol. 26, No.1, pp. 113-129. For a similar assessment with regard to Hungary and other CEE states, see Dale and Hardy, 'Conclusion: The "Crash" in Central Eastern Europe', pp. 258-261; Erzsébet Szalai, 'A rendszerváltástól a rendszerválságig', *Rednews*, 17 June 2010. Available on: http://www.rednews.hu/exkluziv/elmelet/szalai-erzsebet-a-rendszervaltastol-a-rendszervalsagig.html (last accessed on: 28 December 2013); Slavoj Zizek, 'The Deadlock', public lecture at Brunel University, 29 February 2012.

[20] Although the ideational history of 'neoliberalism' has been traced as far back to as the 1920s, the term only entered into widespread popular and scholarly discourse in the 1990s. As Jamie Peck et al. have noted, 'The *New York Times* used the neologism intermittently from 1939, and fairly regularly after the Reagan ascend-ancy', but almost half (44 percent) of the citations occurred in the last decade. In the political dictionary of the radical left, the term first entered circulation after the first Zapatista 'encounter' with neoliberalism in 1996, and subsequently became popularised with the birth of the 'anti-globalisation' movement in Seattle in 1999. In academic discourse, explicit reference to the term is a surprisingly recent phenomenon: of the 2,605 English-language articles in the social sciences that cite 'neoliberalism' as a key word, nearly 92 percent were published after 1999. Out of these, only 139 articles referred to the terms 'post-Soviet' and 'transform-ation' as key words, while only 4 articles named 'Hungary' in the title (all of which were published after 2006). See Jamie Peck, Nik Theodore, and Neil Brenner, 'Postneoliberalism and its Malcontents', *Antipode*, 2009, Vol. 41, No. 1, pp. 96-97. Data on academic articles are from the ISI's *Web of Knowledge* (last accessed on: 28 November 2012).

[21] James Ferguson, 'The Uses of Neoliberalism', *Antipode*, 2010, Vol. 41, No. 1, pp. 166-184; Stephanie L. Mudge, 'What is neo-liberalism?', *Socio-Economic Review,* 2008, Vol. 6, No. 4, pp. 703-731.

[22] Peck et al., op. cit., p. 96.

In this thesis the term 'neoliberalism' is used in three mutually *interrelated* ways. First, in *senso strictu*, the term is used to define an *economic doctrine*, distinct from the classical liberalism of Adam Smith, David Ricardo, and others, whose ideational origins can be traced back to the 1920s and found on both sides of the Atlantic.[23] Building on the central tenets of neoclassical economics, as distilled by the likes of Franz Böhm and Walter Eucken from the Freiburg school of economics, Ludwig von Mises and Friedrich Hayek from the Austrian school, and key members of the 'first' Chicago school around Frank H. Knight and Henry C. Simons (both of whom influenced the intellectual trajectory of Milton Friedman, the founder of the doctrine of 'monetarism' and perceived, both by supporters and critics alike, as one of the 'founding fathers' of neoliberalism), the doctrine is characterised by a strong ideological commitment to a free market economy *and* support for state intervention in the economy in order to promote the development of market institutions.[24] The doctrine contends that human well-being is best promoted by liberating individual entrepreneurial freedoms and dexterity within an institutional framework characterised by strong private property rights, the elimination of barriers to trade, currency deregulation, and the deployment of 'enterprise models', in order to encourage arms of the state to be run like businesses.[25]

---

[23] Pierre Dardot and Christian Laval, *The New Way of the World: On Neoliberal Society*, London: Verso, 2013; Neil Davidson, 'Introduction: What was Neoliberalism?', in *Neoliberal Scotland: Class and Society in a Stateless Nation,* edited by Neil Davidson, Patricia McCafferty, and David Miller, Cambridge: Cambridge Scholars Publishing, 2010, pp. 1-90; David Harvey, *A Brief History of Neoliberalism*, Oxford: Oxford University Press, 2007, pp. 5-38; Jamie Peck, *Constructions of Neoliberal Reason*, Oxford: Oxford University Press, 2010; Dieter Plehwe, Bernhard Walpen, and Gisela Neunhöffer (eds.), *Neoliberal Hegemony: A Global Critique*, London: Routledge, 2006; Rachel S. Turner, *Neo-Liberal Ideology: History, Concepts and Policies*, Edinburgh: Edinburgh University Press, 2008.

[24] Dardot and Laval, op. cit., pp. 21-143; Harvey, *A Brief History of Neoliberalism*, pp. 64-86. For the key works of leading neoliberal theorists see Milton Friedman, *Two Lucky People: Memoirs*, Chicago, IL: University of Chicago Press, 1998 and *Capitalism and Freedom*, Chicago, IL: University of Chicago Press, 2002; Friedrich A. von Hayek, [1944]/1986, *The Road to Serfdom*, London: Ark Paperbacks. 1986.

[25] Dardot and Laval, op. cit.; Gareth Dale, 'Double Movements and Pendular Forces: Polanyian Perspectives on the Neoliberal Age', *Current Sociology*, 2012, Vol. 60, No. 1, pp. 1-27; Gerard Duménil and Dominque Lévy, *Capital Resurgent: Roots of the Neoliberal Revolution*, Cambridge, MA: Harvard University Press, 2004; Ferguson, 'The Uses of Neoliberalism'; Andrew Gamble, 'Neo-Liberalism', *Capital & Class*, 2001, No. 75, pp. 127-134; Harvey, op. cit.; Philip Mirowski and Dieter Plehwe (eds.), *The Road from Mont Pelerin: The Making of the Neoliberal Thought Collective*, Cambridge, MA: Harvard University Press, 2009; Mudge, 'What is neo-liberalism?'; Jamie Peck, 'Remaking laissez-faire', *Progress in Human Geography*, 2008, Vol. 32, No. 1, pp. 3-43 and *Constructions of Neoliberal Reason*; Plehwe et al., *Neoliberal Hegemony*; Turner, *Neo-Liberal Ideology*. For an early account of the origins of neoliberalism as an explicit political philosophy, see Carl J. Friedrich, 'The Political Thought of Neo-Liberalism', *The American Political Science Review*, 1955, Vol. 49, No. 2, June, pp. 509-525.

Second, I refer to neoliberalism as a *political project*, which aims to re-establish the conditions for capital accumulation on a global scale *and* restore the power of economic elites in the wake of the structural crisis of the capitalist world economy in the mid-1970s. Once this strategy obtained traction among elites, following the demise of different forms of 'national capitalism' ('Keynesianism' in the West, 'state capitalism' in the Soviet bloc, and 'import-substitution' in the so-called 'Third World') from the mid-1970s and onwards, neoliberalism started to operate as a social movement 'from above' seeking to put into practice a regime of policies and practices that claim allegiance to the doctrine described above.[26] However, as the renowned Marxist geographer David Harvey has persuasively argued, there is necessarily a divergence between the doctrine itself and the implementation of neoliberalism, since the doctrine, if applied consistently, implies a world that could never exist in reality (which leads Harvey to describe the entire project as 'utopian').[27] Thus, as the radical Canadian journalist Naomi Klein has correctly pointed out, the irony of 'actually existing neoliberalism'[28] is that its advocacy of anti-statist economic policy depended upon the coercive power of the (Fordist) national state against whose unfreedom he was ostensibly aiming his critique.[29] Instead of applying neoliberal doctrine consistently, Harvey argues that dominant elites around the world have deployed neoliberal concepts to further a 'class project'. In this sense, the outcome of neoliberalisation has been an extraordinary enrichment of the holders of capital in parallel with increasing inequality, insecurity, the loss of public services, and a general deterioration in the quality of life of workers and the poor.[30]

Thirdly, I perceive neoliberalism as *the new modus operandi of the capitalist mode of production*, marked by a structural (re-)orientation of the state towards export-oriented, financialised capital, open-ended commitments to market-like governance systems, privatisation and corporate expansion, and deep aversion to social collectives and the

[26] Mark Blyth, *Great Transformations: Economic Ideas and Institutional Change in the Twentieth Century*, Cambridge: Cambridge University Press, 2002; Dale, 'Double Movements and Pendular Forces'.; Davidson, 'Introduction: What was Neoliberalism?'; Duménil and Lévy, *Capital Resurgent*; Chris Harman, 'Theorising Neoliberalism', *International Socialism*, 2007, No. 117; Harvey, *A Brief History of Neoliberalism*.
[27] Harvey, op. cit., pp. 203-204.
[28] The term was originally coined by Neil Brenner and Nik Theodore, 'Cities and the geographies of "actually existing neoliberalism"', *Antipode*, 2002, Vol. 34, No. 3, pp. 349-379.
[29] Naomi Klein, *The Shock Doctrine: the Rise of Disaster Capitalism*, London: Allen Lane, 2007.
[30] Duménil and Lévy, op. cit.; Harvey, op. cit. The outcomes of neoliberalisation in Hungary are discussed in further detail in Chapter 5 and 6.

redistribution of wealth on the part of ruling classes.[31] In this sense, the 'neoliberal era' of capitalism can be periodised into three distinct 'phases'[32]:

1) 'proto-neoliberalism' associated with the ideological assault on different forms of 'national economic' models dating back to the early 1970s and led by the likes of Friedman, Hayek, and powerful neoliberal think-tanks, such as the Mont Pelerin Society or the Adam Smith Institute;

2) 'roll-back neoliberalism' associated with the conservative ascendancy of Margaret Thatcher and Ronald Reagan in the 1980s and the establishment of neoliberalism as a new, dominant 'common sense' among policymakers, promoting the gradual reconfiguration of the (capitalist) state, through processes of deregulation, privatisation, and welfare retrenchment; and

3) 'roll-out neoliberalism', from the 1990s and onwards, focussing on the 'construction and consolidation of neoliberalized state-forms, modes of governance, and regulatory relations'[33] on *global* scale (through new trade and financial regulations by international financial institutions, such as the World Trade Organization (WTO) or the IMF, or the marketisation of the environment under the 1997 Kyoto Protocol), as the logical and desirable economic corollary of an emerging 'new world order'[34] under the hegemony of the US. The onset of the global economic crisis in 2007-2008 has spurred a debate among policymakers, scholars, and political activists, about whether we have entered a new, 'post-neoliberal' phase of capitalism or not.[35]

---

[31] Dale, 'Double Movements and Pendular Forces'.; Philip Mirowski, 'Postface', in *The Road from Mont Pelerin: The Making of the Neoliberal Thought Collective*, edited by Philip Mirowski and Dieter Plehwe, Cambridge, MA: Harvard University Press, 2009, pp. 417-455; Mudge, 'What is neo-liberalism?'; Alfredo Saad-Filho, 'Marxian and Keynesian critiques of neoliberalism', in *The Socialist Register 2008*, Vol. 44, edited by Leo Panitch and Colin Leys, London: Merlin, 2009 and 'Neoliberalism in Crisis: A Marxist Analysis', *Marxism 21*, 2010, Vol. 14, pp. 247-269.

[32] Jamie Peck and Adam Tickell, 'Neoliberalizing Space', in *Spaces of Neoliberalism: Urban Restructuring in North America and Western Europe,* edited by Neil Brenner and Nik Theodore, Hoboken, NJ: Wiley, 2002, pp. 33-57.

[33] Ibid., p. 37.

[34] George H.W. Bush, 1990, 'Address Before a Joint Session of the Congress on the Persian Gulf Crisis and the Federal Budget Deficit', Washington, DC, 11 September 1990.

[35] See for example, Bruff, 'The Rise of Authoritarian Neoliberalism'; Colin Crouch, *The Strange Non-Death of Neoliberalism*, Cambridge: Polity Press, 2011; Bill Dunn, 'The Strange Death of Neoliberalism: The Case of the Missing Corpse', in *Neoliberalism: Beyond the Free Market*, edited by Damien Cahill, Lindy Edwards, and Frank Stilwell, Cheltenham, UK: Edward Elgar Publishing, 2012, pp. 231-250; Naomi Klein, 'Wall Street Crisis Should be for Neoliberalism what Fall of Berlin Wall was for Communism', public lecture at University of Chicago, IL, 6 October 2008. Available on: http://www.stwr.org/globalization/wall-street-crisis-should-be-for-neoliberalism-what-fall-of-berlin-wall-was-for-communism.html (last accessed on: 27 December 2013); Vlad Mykhnenko and Kean Birch, 'Conclusion: The End of an Economic Order?, in *The Rise and Fall of Neoliberalism: The Collapse of an Economic Order?*, edited by *id.*, London: Zed Books 2010; Viktor Orbán, 'A nyugati tipusú kapitalizmus került válságba', speech at the 21st Summer University and Youth Camp in Băile Tușnad (*Tusnádfürdő*), Romania, 24 July 2010. Available on:

Attempts to deepen the neoliberal project globally have often been dependent on the coercive power of the state, but have been fiercely contested by local populations. Resistance to neoliberalisation has been intense and taken a plurality of forms, both progressive and reactionary. Examples of the former include the popular revolt waged by the revolutionary Zapatista Army of National Liberation (*Ejército Zapatista de Liberación Nacional*, EZLN), based in Chiapas, southern Mexico, against the Mexican state, the global social movement against (neoliberal) 'globalisation' and US-led imperialism that swept the world in the late 1990s and early 2000s, and, more recently, the concrete attempts to wield state power, in order to implement progressive economic and social reforms, thereby laying the institutional foundations of a 'socialism of the 21st century', in countries like Venezuela, Bolivia, and Ecuador.[36] Elsewhere, opposition to neoliberalism has primarily taken 'nationalist' and 'populist' forms, and been channelled by neo-conservative and far-right social forces, who have promoted a combination of chauvinistic sentiments (virulent homophobia, xenophobia, anti-Semitism, and anti-communism), with an opposition to 'foreign', 'financial capital', as opposed to 'autochthonous', 'productive capital', and the adoration of a strong, expansionist nation-state.[37]

As I argue in this thesis, the 'double transformation' in Hungary, and CEE more generally, can only be understood as part of a wider shift towards neoliberalism, both globally and within states in the context since the 1970s.

Scope and Methodology

This thesis focuses on the political economy of Hungary in the period between the 1980s and 2012, as a case study of the neoliberal transformation in CEE. The rationale behind our focus on Hungary stems, first and foremost, from the fact that the country has widely been considered as 'vanguard state' of neoliberal restructuring in the region. As such, I argue

---

http://www.orbanviktor.hu (last accessed on: 9 October 2013); Peck et al., 'Postneoliberalism and its Malcontents'; Joseph Stiglitz, 'The End of Neo-Liberalism?', *Project Syndicate*, 2008. Available on: http://www.project-syndicate.org/commentary/the-end-of-neo-liberalism (last accessed on: 6 August 2013); Szelényi, 'A globális pénzügyi válság és Közép Európa nyomorúsága'..

[36] Klein, *The Shock Doctrine*, pp. 447-458.

[37] Harvey, *A Brief History of Neoliberalism*, pp. 81-86; Klein, op. cit., pp. 448-450; Shields, *The International Political Economy of Transition*, pp. 114-120; Kurt Weyland, 'Neoliberal Populism in Latin America and Eastern Europe', *Comparative Politics*, 1999, Vol. 31, No. 4, pp. 379-401.

that developments in Hungary are indicative of changes in other 'transition economies', and indeed elsewhere in the world, especially following the added pressures of EU's eastern enlargement and the ongoing global economic crisis. Secondly, it is motivated by the fact that I speak Hungarian fluently (indeed, it is my mother tongue), which allows me draw on a wide range of sources available only to scholars who converse in this mysterious and rather arcane language. Third, and finally, my focus on Hungary is also driven by a strong *normative* concern. As we noted above, the Hungarian political economy has been hit hard by the ongoing global economic crisis, leading to successive waves of layoffs and house foreclosures, falling living standards, and widespread public anger and disillusionment with the free market and parliamentary democracy (channelled by national-conservative and far-right political parties). Against this gloomy background then, the need to adhere to Karl Marx's famous adage and engage in a '*ruthless criticism* of all that exists'[38] (here: neoliberalism in general, and its Hungarian 'variety' in particular), while also seeking for signs of progressive alternatives to the neoliberal *status quo* in society, seems highly pertinent to me.

Having said this, the scope of the thesis is somewhat larger than what is usually encountered in the transformatology literature. The analysis thus extends backwards in time, beyond the putative *annus mirabilis* of 1989, all the way back to 1945, in order to explore the historico-material and politico-ideological foundations of the Hungarian political economy, and forward to 2012, to analyse the contradictory and variegated outcomes of it's neoliberal transformation. Such a wide scope obviously has both strengths and weaknesses. On the one hand, it obviously sacrifices some depth for breadth of analysis. However, on the other hand, it has the advantage of depicting broad overarching trends of economic, political, and social processes that have captured the imagination of not only mainstream politicians and scholars of the transformation, but also critical scholars and progressive social forces for more than two decades. The aim is therefore to offer an overall portrait of some of the key dynamics of Hungary's neoliberal transformation, something, which I argue, has not yet been satisfactorily accomplished in the English-speaking academic literature.

[38] Karl Marx, 'Marx to Ruge' in *Letters from the Deutsch-Französische Jahrbücher*, 1843. Available on: http://www.marxists.org/archive/marx/works/1843/letters/43_09.htm (last accessed on: 31 November 2013).

In order to answer the questions posed by this study, the thesis employs a combination of social science research methods, or what is sometimes referred to as a 'multi-strategy research method' or 'triangulation'.[39] The thesis draws on a range of empirical material, including critical text analysis of secondary literature of the transformatology literature as well as the wider literature on the 'global neoliberal revolution', official policy documents, public statements of politicians, media accounts, economic data, and opinion polls, as well as semi-structured interviews. In our first empirical chapter, which focuses on the Hungarian political economy between 1945 and 1989, we have drawn upon both primary and secondary sources. The analyses of a number of Hungarian-born economic and social historians, such as Iván Berend and György Ránki, François Fejtő, and Ignác Romsics, have been particularly influential for our understanding of economic, political, and social relations in Hungary during this period.[40] In addition, the works of Derek H. Aldcroft and Steven Morewood, Mark Pittaway, Anna Seleny, and Geoffrey Swain and Nigel Swain, have also been very helpful.[41]

Our analysis of the 'organic' development of 'proto-neoliberalism' in Hungary *before* 1989 does not only rely on secondary material, but also involves critical text analysis of a number reform programmes of the Hungarian transition, in particular the notorious 'Fordulat és Reform' described above.[42] In addition to this, a number of semi-structured interviews have been carried out with Hungarian sources, which have, in one way or another, as proponents/opponents of neoliberal ideas and practices, played a key role in the consolidation of neoliberalism in Hungary.[43] Carried out in Hungarian, in order to avoid

---

[39] Alan Bryman, *Social Research Methods*, Oxford: Oxford University Press, 2004, pp. 451-465.
[40] Iván T. Berend and György Ránki, *The Hungarian Economy in the Twentieth Century*, London: Croom Helm, 1985; Francois Fejtő, *A History of the People's Democracies*, London: Pall Mall Press, 1971; Ignác Romsics, *Hungary in the Twentieth Century*, Budapest: Corvina Kiadó, 1999.
[41] Derek H. Aldcroft and Steven Morewood, *Economic Change in Eastern Europe since 1918,* Aldershot: Edward Elgar, 1995; Mark Pittaway, *Eastern Europe, 1939-2000*, London: Hodder Arnold, 2004; Anna Seleny, *The Political Economy of State-Society Relations in Hungary and Poland: from Communism to the European Union*. Cambridge: Cambridge University Press, 2006; Swain, *Hungary: The Rise and Fall of Feasible Socialism*; Geoffrey Swain and Nigel Swain, *Eastern Europe since 1945*, London: Macmillan, 1993.
[42] Other important Hungarian reform programmes covered in this thesis include: Híd-csoport, 'Híd a közeli jövőbe (100 nap gazdasági programja)', *Közgazdasági Szemle*, 1990, Vol. 37, No. 4, pp. 442-458; Otto Hieronymi, *Economic Policies for the New Hungary: Proposals for a Coherent Approach*, Columbus, OH: Battelle Press, 1990; Kék Szalag Bizottság, A *Kék Szalag Bizottság gazdasági programjavaslata: Magyarország a szabadság és a gazdasági átalakulás utján*, Budapest: Közgazdasági és Jogi Könyvkiadó, 1990; János Kornai, *The Road to a Free Economy. Shifting from a Socialist System: The Example of Hungary*, London: W. W. Norton, [1989]/1990.
[43] Ethical approval for carrying out the interviews was received from Brunel University, School of Social Sciences, in June 2010.

any linguistic misunderstandings, the purpose of these interviews have been, following the seminal work of Grant McCracken, to develop a ‘deeper knowledge’ of the dynamics underpinning the construction of neoliberal hegemony in Hungary, by travelling into the ‘mental world of the individual, to glimpse the categories and logic by which he or she sees the world.’[44] In so doing, these interviews add colour to the narrative and reveal some of the ideological motivations and political strategies of the participants, but more importantly, reading between the lines, they illustrate many of the contradictions inherent in the ascendancy of neoliberalism in Hungary. Up until now, such perspectives have received relatively little attention in the transformatology literature.[45]

As for our understanding of Hungary’s (re-)integration into the capitalist world economy post-1989, and its relationship to the wider shift towards neoliberalism, the works of a number of critical Hungarian scholars, in particular Erzsébet Szalai and Gáspár M. Tamás, have been particularly insightful.[46] In addition, the works of Gareth Dale, Peter Gowan, and Chris Harman have also been helpful.[47] Regarding the socio-economic outcomes of neoliberal restructuring in Hungary and other transformation economies, we have relied on data from both Hungarian and international sources, including the Hungarian Central Statistics Office (*Központi Statisztikai Hivatal*, KSH), Eurostat, the IMF, UNCTAD, UNDP, and the World Bank. In addition to this, the EBRD’s annual *Transition Report*s, as well as the country-specific reports published by the Structural Adjustment Participatory Review International Network (SAPRIN) and the Institute for Social Research (*Társadalomkutatási Intézet*, TÁRKI). As for the socio-economic data used in the thesis, we have chosen to use data based on current US$ rather than Purchasing Power Parity

[44] Grant McCracken, *The Long Interview*, Beverly Hills, CA: Sage, 1988, p. 9. For other examples of interview techniques for social scientists, see Hillary Arksey and Peter Knight, *Interviewing for Social Scientists: an Introductory Resource with Examples*, London: Sage, 1999; Bryman, *Social Research Methods*; and Peter Esaiasson, *Metodpraktikan: konsten att studera samhälle, individ och marknad*, Stockholm: Norsteds Juridik 2002.

[45] Notable exceptions include Mario I. Blejer and Fabrizio Coricelli, *The Making of Economic Reform in Eastern Europe: Conversations with Leading Reformers in Poland, Hungary and the Czech Republic*, Aldershot: Edward Elgar, 1994; Eszter Rádai, *Pénzügyminiszterek reggelire,* Budapest: Helikon Kiadó, 2001.

[46] Erzsébet Szalai, *Gazdasági elit és társadalom a magyarországi újkapitalizmusban*, Budapest: Aula Kiadó. 2001, *id. New Capitalism – And What Can Replace It*, Budapest: Pallas Kiadó, 2008, *id.* ‘A rendszerváltástól a rendszerválságig’; Tamás, ‘Counter-revolution against a counter-revolution’.

[47] Dale, *Between State Capitalism And Globalisation* and *First the Transition then the Crash*; Chris Harman, *Class Struggles in Eastern Europe, 1945-1983*, London: Bookmarks, [1974]/1988, *id.* ‘The Storm Breaks’, *International Socialism*, 1990, No. 46, pp. 3-93, *id. Zombie Capitalism: Global crisis and the relevance of Marx*, London: Bookmarks, 2009; Peter Gowan, ‘Neo-Liberal Theory and Practice for Eastern Europe’, *New Left Review*, 1995, Vol. 1, No. 213, pp. 3-60, and *id. The Global Gamble: Washington's Faustian Bid for World Dominance,* London: Verso, 1999.

(PPP), as the former provides a better illustration of economic power relations *between* states in the world economy.

As for developments in Hungary since the onset of the global economic crisis in 2007-2008, the analysis presented here draws primarily upon public statements of politicians and policymakers, newspaper articles, reports, and analyses published in major Hungarian and international newspapers and periodicals, including *Heti Világgazdaság*, *Magyar Nemzet*, *Népszabadság*, *The Economist*, *Financial Times*, *New York Times*, and *Der Spiegel*, as well as public opinion polls, in order to provide an objective, but not politically 'neutral' account of what has been a politically and emotionally charged period in Hungarian history.[48]

Structure of the Thesis

The structure of the thesis is simple and straightforward: it is divided into a theoretical and a historico-analytical part. Having adumbrated the main argument of the thesis in the Introduction, Chapter 2 critically engages with a number of theoretical approaches on the transformation in Hungary and elsewhere in CEE (e.g. neoliberalism, institutionalism, world-systems theory, and neo-Gramscianism). By exploring the lacunae in these approaches, we will demonstrate the need for an alternative approach to Hungary's double transformation, which sees to connect the domestic and the international as constituting a single, causally integrated ontological whole. This will be done by drawing on some of the central insights of Marxist political economy, in particular the theory of state capitalism as originally formulated by Raya Dunayevskaya, C.L.R. James, and Tony Cliff, and later developed by Chris Harman and Mike Haynes, amongst others.

Against the background of this theoretical framework, Chapter 3 develops a historically grounded analysis of state capitalism in Hungary, from its ascendancy in the second half of the 1940s, through its deepening crisis from the late-1970s and onwards, to its ultimate demise in 1989. Analysing in detail the contradictions of successive waves of market reform in nominally 'socialist' Hungary, it discusses how growing external pressures (geopolitical and economic competition with the West) together with increasing disbelief

[48] On the difference between 'neutrality' and 'objectivity' in the social sciences, see Neil Davidson, 'Introduction: What was Neoliberalism?', pp. xvi-xix.

in the Soviet model within the ruling party-state, in the wake of continuing relative economic decline in the late 1970s and early 1980s, opened up a space, in which, what we have termed, for want of a better word, 'proto-neoliberal' ideas could be formulated.

Chapter 4 then looks in closer detail at the ascendancy of 'proto-neoliberalism' in Hungary during the 1980s. Building on insights from critical text analysis of key transition programmes and carefully chosen semi-structured interviews, we will show how proponents of 'radical' market reform, strategically located in the influential Institute of Financial Research, managed to construct their reform paradigm as superior to any alternative reform programme, such as 'market socialism' or a social democratic 'Third Way'. Such a focus on the *relationship* between structural pressures, ideas, and agency is arguably crucial given Antonio Gramsci's recognition that,

> *laissez-faire* too *is* a form of State "regulation", introduced and maintained by legislative and coercive means. *It is a deliberate policy, conscious of its own ends, and not the spontaneous, automatic expression of economic facts.* Consequently, *laissez-faire* liberalism *is* a political programme, designed to change – in so far as it is victorious – a State's leading personnel, and to change the economic programme of the State itself – in other words the distribution of the national income.[49]

In this regard, the economists at the Institute of Financial Research were the conscious bearers of liberal market capitalism in Hungary in the period prior to 1989.

Chapter 5 then analyses in detail the consolidation of neoliberalism in the period between 1990 and 2006, and its variegated impact on Hungarian society. Situating this process within a wider trend of neoliberal restructuring in CEE and the international political economy, the chapter outlines the key characteristics, contradictory outcomes, and dominant social forces seeking to promote this process in Hungary. In contrast to neoliberal accounts, we will argue that this process was dependent on the use of economic coercion, as exemplified by the western governments and international financial institutions' insistence on austerity and rapid privatisation as conditions for loans, as well as extensive investment in the ideological underpinnings of neoliberalism, in particular by USAID, the EU, and German-based multinational corporations and political foundations.

[49] Antonio Gramsci, *Selections from the Prison Notebooks*, London: Lawrence & Wishart, 1973, p. 160 (my emphasis).

However, while most critics of neoliberal 'market fundamentalism' have emphasised the role of *external* actors in pressuring Hungarian policymakers to pursue policies conducive to the logic of (neoliberal) capital accumulation, we will argue that the support of *domestic* social forces was crucial, as evidenced for example in the introduction of the so-called 'Bokros Package' in 1995 – the most extensive austerity package hitherto introduced in post-transition Hungary. Analysing the politico-economic trajectory of Hungary, it will be shown that the country did in a certain sense become a 'success story' of neoliberal transformation in the region. However, in contrast to dominant accounts, that Hungary's neoliberal regime of accumulation was fraught with contradictions and limitations. These limitations were revealed during the massive anti-government protests that rocked Hungary in the autumn of 2006.

Following on from this, Chapter 6 shifts the focus to more contemporary debates, analysing the effects of the global economic crisis on the Hungarian political economy in the period between 2007-2012. Engaging critically with prevailing accounts of the crisis in academic and popular debates in both Hungary and abroad, it will be shown that Hungary's vulnerability to the global economic crisis was neither the fault of 'greedy bankers and corrupt politicians', nor the result of 'bad policies', but instead reflected the *inherent* contradictions of what can be defined, to borrow a popular phrase, as Hungary's particular 'variety of capitalism'. This chapter also analyses the uneven impact of the ongoing crisis on Hungarian politics and society, and argues that the crisis has led to a 'populist' backlash against neoliberalism, including the political parties traditionally favouring neoliberal restructuring (MSZP and SZDSZ), which has been mediated by national-conservative (FIDESZ) and fascist (Jobbik) forces.

Finally, in the Conclusion I reflect on the historical and theoretical implications that can be learned from the case study of Hungary's transformation offered by this thesis, while drawing out the broader implications for the current conjuncture.

Rethinking the Political Economy of the 'Double Transformation' in Hungary and Elsewhere in Central and Eastern Europe

Introduction

As we mentioned in the Introduction, the unexpected, uneven, and contradictory development of CEE economies since their 'double transformation' from central planning to (free) market economies and from authoritarian rule to parliamentary democracy in 1989-1991 has given rise to an ongoing debate in the literature on their relationship to the global restructuring of (neoliberal) capitalism as new events and processes occur: the 'transformational recession' that swept the region in the 1990s, the accession of former Warsaw Pact members to NATO and the EU, and, more recently, the variegated impact of the global economic crisis on the economies of the region. In this context, neoliberalism has been a recurring theme and its impact on CEE economies stressed by numerous accounts, as the region is widely recognised to have served as a testing ground for neoliberal policies of liberalisation, privatisation, and stabilisation.

With this in mind, the aim of this chapter is to offer a critical review of how the 'double transformation' in CEE has been theorised in the literature. More specifically, we are interested in how different approaches have accounted for the *origins* of the 'transition' in the region; the *key dynamics*; the different *explanations* offered to account for the 'anomalies' of the transformation, such as the 'transformational recession' of the 1990s or the uneven development of the region since then; and the *politics* that flow from the different approaches. In accordance with the focus of our thesis, our inquiry will here primarily focus on Hungarian developments.

Having said this, this chapter is organised as follows. In Section 2 and 3 we look at the way in which the two dominant paradigms in the transformatology literature – here identified as the neoliberal and the institutionalist approaches respectively – have analysed the complex economic, political, and social changes resulting from the demise of 'actually existing socialism' in Hungary and elsewhere in CEE and the former Soviet Union and the reintegration of the region into the global political economy. I address the often-unacknowledged set of common assumptions and shortcomings of each concerning the transformation, and emphasise the underlying neoclassical tendencies of both orthodox approaches. Section 4 then turns to more critical approaches to the transformation, as represented by world-systems theory and neo-Gramscian political economy. Throughout both sections, the analysis demonstrates how each of these approaches, while helpful in illuminating particular conditions and factors behind the transformation, remain unsatisfactory in their overall explanations. The lacunae identified in these accounts point us toward the need for an alternative account of the double transformation. Section 5 takes up this challenge by outlining what we consider to be the necessary elements of a critical theory of transformation, drawing on the insights of Marxist political economy, in particular the theory of state capitalism, as developed originally by the likes of Raya Dunayevskaya, C.L.R. James, and Tony Cliff. Finally, the Conclusion will summarise the main arguments and make the case that state capitalism theory, together with other concepts of Marxist political economy, presents a possible way for overcoming the problems that we identified.

'Capitalism Triumphant': The Neoliberal Account of the Transformation

Following the demise of 'actually existing socialism' in Eastern Europe and the Soviet Union in 1989-1991, a dominant paradigm for the transition to the market and parliamentary democracy was quickly established. Drawing on the diverse theoretical influences that we associated in the previous chapter with neoliberalism, as well as the practical experiences of implementing structural adjustment programmes in the 'Third

World' in the 1980s, this approach emphasised the implementation of a set of 'radical' market reforms in order to shift the ailing centrally planned economies onto a fundamentally new path of development. At the heart of the neoliberal approach was the idea that 'successful' transition was best achieved if entrusted to the beneficial effects of the 'invisible hand' of the free market.[50] The implication of this assumption was that any state involvement in the economy – through regulation of competition, provision of subsidies, or taxation – would distort the workings of the market. As one of the most illustrious representatives of the neoliberal approach to the transition, the young Harvard economist Jeffrey Sachs, reassured Eastern European reformers in the early 1990s, '[m]any of the economic problems [will] solve themselves: markets spring up as soon as central planning bureaucrats vacate the field.'[51]

I refer to this approach as the *neoliberal politico-economic approach* to the transformation, to emphasise that we are not simply dealing with the application of seemingly 'neutral' economic policies, derived from neoclassical economic theory, on the transformation economies. Rather, I contend that the neoliberal approach contains general conceptions of institutional change and collective action as well as political and normative judgements that are quite independent of their theoretical justifications.[52] In this sense then, neoliberalism represents, as David Harvey has argued, a *political* project 'to re-establish the conditions for capital accumulation and to restore the power of economic elites.'[53] In this literature, Hungary has, at least until the mid-2000s, been hailed as a 'success story' of

---

[50] Important works associated with the neoliberal approach to the transformation include: Leszek Balcerowicz, *Socialism, Capitalism, Transformation*, Budapest: Central European University Press, 1995; Olivier Blanchard et al., *Reform in Eastern Europe*, Cambridge, MA: MIT Press, 1991; János Kornai, 'The Hungarian Reform Process: Visions, Hope, and Reality', *Journal of Economic Literature*, 1986, Vol. 24, pp. 1687-1737, *id. The Road to a Free Economy*, *id. The Socialist System: The Political Economy of Communism*, Oxford: Clarendon, 1992, and *id.* 'The Great Transformation of Central Eastern Europe: Success and Disappointment', *Economics of Transition*, 2006, Vol. 14, No. 2, pp. 207-244; David Lipton and Jeffrey Sachs, 'Creating a Market Economy in Eastern Europe: The Case of Poland', Brookings Papers on Economic Activity, 1990, No. 1, pp. 75-147; Jeffrey Sachs, 'What is to be done?', *The Economist*, 13 January 1990, pp. 19-24, id., *Poland's Jump to the Market Economy*, Cambridge, MA: MIT Press, 1993, and id. 1994, 'Understanding "Shock Therapy"', *Social Market Foundation Occasional Paper,* No. 7, London: Social Market Foundation, 1994; Anders Åslund, *Post-Communist Economic Revolutions: How Big a Bang?,* Washington, DC: Center for Strategic and International Studies, 1992, *id.*, *Building Capitalism: The Transformation of the Former Soviet Bloc*. Cambridge: Cambridge University Press, 2002, and *id. How Capitalism was Built: The Transformation of Central and Eastern Europe, Russia, and Central Asia*, Cambridge: Cambridge University Press, 2007.

[51] Sachs, 'Understanding "Shock Therapy"', p. xiii.

[52] Frank Bönker, Klaus Müller, and Andreas Pickel 'Cross-Disciplinary Approaches to Transformation: Context and Agenda', in *Postcommunist Transformation and the Social Sciences: Cross-disciplinary Approaches*, edited by *id.*, London: Macmillan, 2002, p. 5.

[53] Harvey, *A Brief History of Neoliberalism*, p. 19.

(neoliberal) transformation and propagated as a model to be emulated by other countries in the region, by virtue of its rapid and peaceful transformation, which resulted in the creation of a dynamic market economy, highly open to international trade and capital inflows, accompanied by the establishment of a stable democratic regime.[54] The 'success' of Hungary's transformation is usually ascribed to the strong *continuity* of economic policy in favour of neoliberalisation since 1989, despite the frequent change in ruling political parties in Budapest.[55]

Around the time of the transition, three influential groups advocated the neoliberal position. The first consisted of a new generation of neoclassical economists in the west, who, as Gregory N. Mankiw notes, were widely considered as the 'best and brightest'[56] in the economics profession. This group included, amongst others, Olivier Blanchard, Stanley Fischer, David Lipton, Jeffrey Sachs, Larry Summers, and Anders Åslund.[57] While the members of this group were well-versed in neoclassical economic theory (many of them worked at some of the most renowned economics departments on both sides of the Atlantic), most of them had limited theoretical knowledge of Soviet-style economies, let alone any practical experience of the region worth mentioning (*pace* Åslund). Rather, most of the economists listed above had gained their practical experience from implementing structural adjustment programmes in the Third World in the 1980s. Instead, as former World Bank economist David Ellerman argues, these economists brought to the region 'the compounded arrogance of youth, academic credentials, and elite associations', and were subsequently 'unleashed' into 'the real world of policy-making as "experts."'[58] The second group in favour of radical economic reform were the major international financial institutions, in particular the IMF and the World Bank, and the OECD, and regional bureaucratic organisations, such as the EU and the EBRD, who provided policy advice to

[54] As an example, Hungary has continuously ranked among the highest in the EBRD's *Transition Index* (which measures the level of 'success' in achieving economic and political transformation in 'post-communist' countries).
[55] Åslund, *Building Capitalism...* and *How Capitalism was Built…*; EBRD, *Transition Reportt 2001: Energy in Transition*, London: EBRD, 2001; Kornai, 'The Great Transformation of Central Eastern Europe'; OECD, *OECD Economic Surveys 2002: Hungary*, Paris: OECD Publishing, 2002.
[56] Gregory N. Mankiw, 'Review of: *Reinventing the Bazaar*, by John McMillan', *Journal of Economic Literature*, 2003, Vol. 41, No. 1, p. 257. See also David Ellerman, *Helping People Help Themselves: From the World Bank to an Alternative Philosophy of Development Assistance*, Ann Arbor, MI: University of Michigan Press, 2005.
[57] Blanchard et al., *Reform in Eastern Europe*; Lipton and Sachs, 'Creating a Market Economy in Eastern Europe'; Sachs, 'What is to be done?', *Poland's Jump…*, 'Understanding "Shock Therapy"'; Åslund, *Post-Communist Economic Revolutions...*, *Building Capitalism…*, and *How Capitalism was Built...*
[58] Ellerman, op. cit.

the transformation economies on the development of financial institutions, privatisation, enterprise restructuring, and reform of welfare systems, along neoliberal lines. Their ideas enjoyed political and ideological backing from powerful Western states, in particular the conservative governments of Margaret Thatcher (1979-1991) and the administrations of Ronald Reagan (1981-1989) and George Bush Sr. (1989-1993) in the United Kingdom and United States respectively, who, as we noted in the Introduction, were key advocates of neoliberalism in the 1980s and early 1990s.[59] The third group consisted of some of the most renowned reform economists in Eastern Europe, most notably János Kornai in Hungary, Václav Klaus in Czechoslovakia, and Leszek Balcerowicz in Poland. Similar to their neoliberal *confrères* in the West, many of these reformers would go on to become important protagonists in the neoliberal transformation of CEE.[60]

Neoliberalism and the Origins of the Transition

The neoliberal approach to the transformation developed as a response to the deepening economic crisis of the Soviet bloc economies from the late 1970s and onwards. From the neoliberal perspective, the socio-economic development of the Soviet bloc diverged from the established features of 'capitalism' in Western Europe and the United States, displaying a number of pathologies – 'totalitarianism', the dominance of state ownership of the means of production, bureaucratic organisation of the economy and centralised allocation of resources, highly regulated prices and international trade, and an economic system geared towards high economic growth through investment in heavy industry –

---

[59] For the position of international and regional financial insitutions regarding the transition, see EBRD, *Transition Report 1994: Economic Transition in Eastern Europe and the Former Soviet Union*, London: EBRD, 1994; IMF, *Annual Report 1992*, Washington, DC: International Monetary Fund, 1992; OECD, *OECD Economic Outlook 1991*, 2 volumes, Paris: OECD Publishing, 1991; World Bank, *World Development Report: From Plan to Market*, New York, NY: Oxford University Press, 1996. For an early critique of the coercive nature of 'Western economic diplomacy' towards the countries of Eastern Europe on the eve of the transition, see Peter Gowan. 'Western Economic Diplomacy and the New Eastern Europe', *New Left Review*, 1990, No. 182, pp. 63-84.

[60] Balcerowicz initially joined Solidarity as an economic expert and went on to become one of the key advocates of neoliberal shock therapy in Poland and elsewhere after the transition. He served as Minister of Finance and Deputy Prime Minister (between 1989-1991 and 1997-2000), as well as the President of the Polish Central Bank between 2001-2007. Václav Klaus entered politics in 1989, was and later became one of the co-founders of the conservative Civic Democratic Party (*Občanská demokratická strana*, ODS). He was Minister of Finance (1989-1992) and the last Prime Minister of Czechoslovakia (1992-1993), and has later served as Prime Minister (1993-1997) and President (2003-2013) of the Czech Republic. In comparison to the former, Kornai's involvement in the politics of post-transition Hungary was modest. Apart from providing informal advice to finance ministers, he served on the Central Bank Council of the Hungarian National Bank (MNB) from 1995 to 2001 (although in this position he played a pivotal role in the formulation of monetary policy in Hungary during this period).

distinguishing its economic policy behaviour. This resulted in an economic system characterised by 'incoherence' and 'internal contradictions', as manifested in the existence of what Kornai famously described as a 'shortage economy', characterised by inefficiency in production (a bias for heavy industry over consumption goods), increasing gap in technological development vis-à-vis the 'capitalist' West, and a waste of (natural and human) resources.[61] Central planners in the Soviet bloc sought to overcome these problems through the introduction of economic reforms 'from above', together with the easing of political repression. Hungary's long history of gradual economic reforms – most famously exemplified by the introduction of the NEM in 1968 – is here viewed as a paradigmatic example of 'market socialism' or 'reform socialism' in the region (other notable examples include Poland and Yugoslavia).[62] These reforms formed part of attempts by the ruling 'communist' *nomenklatura* in the region to remain competitive with the 'capitalist' states in the West, while at the same time conserving their political hegemony over society. However, according to neoliberals these reforms were not viable in the long term, since, as Kornai put it, '[t]he process of reform yields a heteromorphic formation that contains the seeds of its own destruction: inner tensions that build up until it bursts.'[63]

Hence, according to neoliberal economists the causes of the deepening socio-economic and political crisis of the Eastern European command economies in the 1980s were *endogenous* in nature. They were rooted in the *inherent* shortcomings of an economic system characterised by 'incoherence, internal contradictions, and lack of stability'.[64] The origins of the double transformation are, in this view, conceived as the result of the 'socialist' states' imperfect modernisation and failure to transform themselves into liberal-capitalist societies. In other words, it is conceived as 'the failure of an entire system' ('socialism') and a vindication of economic and political liberalism and 'Western'

[61] The classical text on the 'shortage economy' is János Kornai, *Economics of Shortage*, Oxford: North Holland, 1980.. See also János Kornai, *Over-centralization in Economic Administration: A Critical Analysis Based on Experience in Hungarian Light Industry*, Oxford: Oxford University Press., [1957]/1959, and *id. The Socialist System*, pp. 228-301.
[62] For a summary of the Hungarian reform process, see Berend, *The Hungarian Economic Reforms, 1957-1990*; Wlodzimierz Brus and Kazimierz Laski, *From Marx to the Market: Socialism in Search of an Economic System*, Oxford: Clarendon, 1989, pp. 62-72; Kornai, 'The Hungarian Reform Process'.
[63] Kornai, *The Socialist System*, p. 574.
[64] Ibid. In fact, this claim had already been made by some of founding fathers of neoliberalism, such as Ludwig von Mises and Friedrich von Hayek, who had 'scientifically proven' that the economic principles of 'socialism' were unworkable in practice and necessarily led to 'totalitarianism'. See Ludwig von Mises, 'Die Wirtschaftsrechnung im sozialistischen Gemeinwesen', *Archiv für Sozialwissenschaften*, 1920, Vol. 47, pp. 86-101; Hayek, *The Road to Serfdom*.

values.[65] The ultimate demise of the Soviet bloc in 1989-1991 is thus perceived as *external* to capitalism.

Neoliberalism and the Political Economy of 'Shock Therapy'

In order to break out from their deepening crisis, proponents of neoliberalism argued that a quick and radical overhaul of the ex-command economies was necessary. Formally launched in Poland on 1 January 1990, when the Solidarity-led government introduced the so-called 'Sachs-Balcerowicz Plan'[66], the neoliberal prescription for CEE consisted of three main elements: 1) the introduction of a *radical stabilisation programme* to bring down inflation, reduce state spending and wages; 2) the *liberalisation of prices and trade* to adjust prices to equilibrium levels (through the forces of demand and supply), break up monopoly prices, and encourage economic actors to spontaneously adjust their behaviour to market rationality; and 3) the introduction of *structural reforms*, including the privatisation of previously state-owned enterprises, transformation of the banking-, financial-, and legal system, in line with Western standards, the slashing of industrial policy, and the introduction of targeted welfare provision to those most negatively affected by radical market reform.[67] Also known as the 'big bang' or 'shock therapy'[68] programme

---

[65] Ian Jeffries, *Socialist economies and the transition to the market: a guide*, London: Routledge, 1993, p. 1. This thesis was most famously summed up by Francis Fukuyama in 'The End of History?', *The National Interest,* 1989, and *id. The End of History and the Last Man*, London: Penguin Books, 1992.

[66] In much of the transformatology literature, this programme is simply known as 'the Balcerowicz Plan', in honour of its author, Leszek Balcerowicz, who at the time served as Deputy Prime Minister and Minister of Finance of the Mazowiecki government. However, as Shields has convincingly argued, the programme should be known as the 'Sachs-Balcerowicz Plan to indicate the degree of consistency between the two [main proponents of neoliberalism in Poland at the time]'. Here cited in Stuart Shields, 'The "Charge of the Right Brigade": Transnational Social Forces and the Neoliberal Configuration of Poland's Transition', *New Political Economy*, 2003, Vol. 8, No. 2, pp. 232.

[67] Åslund, *Building Capitalism...*, pp. 77-82; Lipton and Sachs, 'Creating a Market Economy in Eastern Europe'; Sachs, 'What is to be done?'.

[68] As Naomi Klein shows in *The Shock Doctrine*, the term can be traced to Milton Friedman, who used the term 'shock treatment' to describe the pro-market reforms introduced by the Chilean dicator, General Augusto Pinochet, in 1975. The economic policies, which were based on the neoliberal economic ideas espoused by Friedman and other prominent members of the Chicago School of economics, emphasised the sudden and simultaneous release of price and currency controls, withdrawal of state subsidies, trade liberalisation, and large-scale privatisation of previously state owned assets. According to Friedman (here cited in *id.*, *Two Lucky People*, p. 592), the speed, suddenness, and scope of the economic shifts would provoke psychological reactions in the public that 'facilitate the adjustment.' The term 'shock therapy' was first used in relation to CEE by Jeffrey Sachs, who used it to describe the programme of 'radical' economic reform that he and his neoliberal confrères prescribed to the ailing Polish economy in 1989, and which came to be known as the 'Sachs-Balcerowicz Plan' following its implementation in 1990. The usefulness of the term has been has been strongly questioned by scholars of transformation, including some of the architects of neoliberal blueprint (see Kornai, 'The Great Transformation of Central Eastern Europe', p. 357). As Brabant sums up the critique, '[n]ot only is the notion shock therapy not very appropriate in clarifying the policies pursued in some transition economies, but also the discussion has been needlessly obfuscated because of

in the literature, in reference to the drastic, surgical intervention that was to be applied on the former command economies, similar programmes were applied across CEE in the 1990s, albeit with differing emphasis on the *speed* and *sequencing* with which market reforms were to be implemented.[69]

The economic rationale behind neoliberal shock therapy derived from the abstract models of neoclassical economic theory, as well as the practical experiences of implementing structural adjustment programmes in the Third World in the 1980s, which were later summarised by John Williamson under the term 'Washington Consensus'[70]. Stabilisation and structural reform would, it was assumed, combine to usher in a process described by the Austrian economist Joseph Schumpeter as 'creative destruction', by which the previously unproductive sectors of the centrally planned economies would disappear, giving way for new innovative capitalists that would provide the basis for a period of sustained long-term economic growth.[71] Given the new market environment, trade liberalisation would permit the inflow of foreign capital, which in turn would spark an export-driven surge with relatively low wages and proximity to Western markets providing a competitive advantage. This 'market-based approach to development'[72], it was assumed, would allow for a fast re-integration with the world economy, which, in turn, would lead to economic growth, as well as greater individual 'freedom' and higher living standards to the peoples of CEE.[73] At the same time, the role of the state in the economy was to be slimmed down and radically reconfigured. The 'regulatory state' associated with Keynesianism was to be replaced by what Phil Cerny has described as the 'competition state', which would

---

failure to specify clearly the kinds of policies coming within the compass of shock treatment. The metaphor as used by economists implies a short, sharp shock with immediate effects. In that sense, it should not be too far removed from the textbook's neoclassical abstraction of instantaneous and costless adjustment to a new equilibrium. Though "instantaneous" should be handled elastically in this case, one must wonder whether a three-to-five-year economic depression can still meaningfully qualify as a shock, let alone therapy.' Here cited in Jozef M. van Brabant, *The Political Economy of Transition: Opportunities and Limits of the Transformation*, London: Routledge, 1998, p. 103.

[69] According to a 1996 IMF study, between January 1990 and Aprial 1995, 25 out of 26 'transition economies' introduced economic reforms along neoliberal lines. Here cited in Stanley Fischer et al. 'From Transition to Market: Evidence and Growth Prospects,' in *Lessons from the Economic Transition: Central and Eastern Europe in the 1990s*, edited by Salvatore Zecchini, London: OECD and Kluwer Academic Publishers, 1998, pp. 79–101.

[70] John Williamson, 'What Washington Means by Policy Reform', in *Latin American Adjustment: How Much has Happened*, edited by *id.*, Washington, DC: Institute for International Economics, 1990.

[71] Joseph A. Schumpeter, *Capitalism, Socialism, and Democracy*, London: Unwin University, [1942]/1975.

[72] The term is taken here from the liberal Hungarian economist László Csaba, who defines the central feature of this approach as resting on the idea that the market represents 'the fundamental coordinating mechanism through which the vicious cycle of poverty can be overcome'. László Csaba, *The New Political Economy of Emerging Europe*, Budapest: Akadémiai Kiadó, 2007, p. 101.

[73] Sachs, 'Understanding "Shock Therapy"', p. 25.

reconfigure the domestic economy to the exigencies of global markets, ensure a legal order for the protection of private property rights, and provide targeted social support.[74] A number of countries and prominent advisers also made calls the provision of debt relief and financial assistance, along the lines of the Marshall Plan,[75] provided by the US to Western European governments between 1948-1951, in order to help post-World War II reconstruction and prevent the spread of 'communism' westwards.[76] However, in the 1990s this idea fell on deaf ears, as some neoliberals opposed government intervention by principle, while international financial institutions and leading Western states insisted that countries had to prove themselves before receiving financial assistance.

The hopes and prescriptions of the neoliberal approach were, however, not only confined to the economy. The transition was also heralded as a civilising process, which would enable the peoples of Eastern Europe to 'return to Europe'. This notion was aptly summarised in Hungary at the time by Miklós Vásárhelyi, a writer and former press secretary to the 'reform communist' Prime Minister Imre Nagy, who had been imprisoned for five years following the violent suppression of the Hungarian Revolution of 1956. In an interview with the *New York Times* in 1989, he proclaimed optimistically that,

> First of all there will really be a Europe again. The countries of Central and Eastern Europe will finally get an opportunity to unite with the West. We will begin to live under the same conditions. It will take time, but socially, politically, and economically we will achieve what the Western countries have already achieved. The doors are open now.[77]

Meanwhile, privatisation of state-owned enterprises would ensure the organic development of a strong domestic bourgeoisie supportive of liberal democratic values. According to most neoliberals, this process should be initiated as soon as possible, but could *not* be

---

[74] Phil Cerny, *The Changing Architecture of Politics: Structure, Agency and the Future of the State*, London: Sage, 1990. See also Åslund, *Building Capitalism...*, pp. 76-82; Kornai, *The Road to a Free Economy*, pp. 206-209; Lipton and Sachs, 'Creating a Market Economy in Eastern Europe'.

[75] The Marshall Plan was named after US Secretary of State George Marshall and implemented between 1948-1951. It helped Western European reconstruction after World War II with aid equivalent to almost 5 percent of US GDP in 1948, the peak year, and generous repayment terms on US loans.

[76] The leading advocate of this position in the academia was Jeffrey Sachs. See Lipton and Sachs, op. cit.; Sachs, 'What is to be done?', *Poland's Jump…*, and 'Understanding "Shock Therapy"'. Similarly, Shleifer and Vishny argued, '[f]oreign aid, if used politically, can come to the aid of these reformers, and offer them resources that help them to stay in power and pursue their goals.' Andrei Shleifer and Robert W. Vishny, *The Grabbing Hand: Government Pathologies and their Cures*, Cambridge, MA: Harvard University Press, 1998, p. 13.

[77] Vásárhelyi 1989, here cited in Bernard Gwertzman and Michael Kaufman, *The Collapse of Communism*, New York, NY: Random House, 1990, pp. 225-226.

achieved in one stroke. Instead, as Kornai argued, the local bourgeoisie would 'emerge as the result of the market's natural selection process'.[78]

Proponents of neoliberal shock therapy admitted that their economic reforms would be painful for large sections of society, but argued, echoing Thatcher's famous dictum, that 'there was no alternative' to their prescriptions.[79] Stabilisation and liberalisation would sharply reduce average real wages in the economy, while unemployment rates would rise over the medium term, as firms shed labour in order to remain competitive. However, as Sachs insisted, 'Western observers should not over-dramatise lay-offs and bankruptcies. ... *Eastern Europe, now has too little unemployment, not too much*.'[80] Instead, the social costs of transition-associated adjustment had to be paid, and the quicker the better. The logic behind this argument was based on political calculations. Recalling the experiences of implementing structural adjustment programmes in Latin America in the 1980s, foreign advisers were all too aware that the high social costs of neoliberal restructuring were likely to lead to opposition from disaffected groups in society.[81] 'Populist politicians', warned Sachs, 'will try to hook up with coalitions of workers, managers and bureaucrats in hard-hit sectors to slow or reverse the adjustment'.[82] Therefore, proponents of the neoliberal approach called for a *strong* state, which, as Kornai described it, could 'set the economy right with a firm hand', while at the same time keeping 'populist' pressures in check.[83] As critics of neoliberalism have pointed out, this was in stark opposition to the 'minimal state' praised by neoliberal theory.

The most sophisticated theoretical justification of state intervention in favour of the market was provided by Balcerowicz, who argued that '[t]he key to understanding the interaction between the political and economic dimensions of post-communist transitions is to realize

---

[78] Kornai, *The Road to a Free Economy*, pp. 50-51.
[79] In Hungary, this was expressed in economic policy debates at the time by the famous slogan, 'there is no space for manoeuvring in economic policy' [*nincs mozgástér a gazdaságpolitikában*].
[80] Sachs, 'What is to be done?', pp. 22-23 (my emphasis).
[81] In the early 1990s, neoliberal economists frequently warned Eastern European reformers of the importance of avoiding the problems faced by many Latin American countries, such as Argentina, Bolivia, Brazil, Peru, or Venezuela, in the 1980s, where there was no political consensus in favour of structural adjustment. Instead, attempts to implement structural adjustment programmes resulted widespread opposition from society (even the death of thousands of civilians, as in the case of the *Caracazo* that occurred in Venezuelan capital of Caracas on 27 February 1989, when protests against free market reforms left as many as 3,000 protesters dead, mostly at the hands of the security forces). For comparisons with Latin America, see Lipton and Sachs, 'Creating a Market Economy in Eastern Europe'; Sachs, 'What is to be done?'.
[82] Sachs, op. cit., p. 23.
[83] Kornai, op. cit., p. 207. See also Lipton and Sachs, op. cit., p. 87.

that any great political breakthrough in a country's history is followed by a period of "extraordinary politics" that soon gives way to "normal politics"'.[84] Hence, a political breakthrough like that sweeping through Eastern Europe and the Soviet Union in 1989-1991 was expected to produce a 'special state of mass psychology' in which individuals were more willing to act and think in terms of the common good, eschewing the narrow interest based perspective of 'normal politics'. Extraordinary politics, according to Balcerowicz, translates into an exceptionally high readiness to sacrifice for the 'common good'; and therefore to accept neoliberal economic reform. As he went on to assert, 'The brevity of the exceptional period means that a radical economic programme, launched as quickly as possible after the breakthrough, has a much greater chance of being accepted than either a delayed radical programme or a non-radical alternative'.[85] Reformers should therefore seize the 'window of opportunity' provided by extraordinary politics to achieve as much of their reform agenda as possible, before the normal politics of self-interest returned. What thus appeared as a problem for many became for neoliberals a solution: rapid and decisive implementation of shock therapy, backed by the state, in order to avoid a 'populist backlash' against radical market reforms. However, in countries like Hungary, which was characterised by a strong degree of intra-ruling class struggle at the time of the transition, this had to be achieved through the formation of a 'broad coalition', which included the political representatives of a nascent capitalist class, the state bureaucracy, and the trade unions.[86]

Why then, despite the social costs borne by the populations of CEE and the former Soviet Union, was the neoliberal blueprint for the transition embraced with open arms by reformers in the region? Pickel has argued that, 'The neo-liberal position offers a clean and uncompromising break with the past, an initially painful but before long richly rewarding reform process … superior Western institutions quickly replace the defunct one-party central planning system … [creating] the conditions for both the political freedoms and the economic prosperity enjoyed by most citizens of Western countries and integrate the East economically, politically, and culturally into the world market and into various global and

[84] Balcerowicz, *Socialism, Capitalism, Transformation*, pp. 160-161.
[85] Ibid., p. 162.
[86] Kornai, *The Road to a Free Economy*, pp. 208-209. Kornai recommended Hungarian policymakers to follow the historical examples of the *großekoalitionen* of Konrad Adenauer and Ludwig Erhard in post-World War II West Germany.

regional organisations.'[87] Crucially, by also embedding the transition within an uncompromising 'anti-communist' and 'pro-Western' normative and intellectual framework, the neoliberal approach supplied a clear set of definitions and uncontroversial set of goals, while at the same time offering the expertise for implementation.[88] However, as many critics have noted, the transfer of neoliberal policies to the 'transition economies' was not as 'unbiased' as claimed by its proponents, but served the interests of the economic and political elites in the region.[89]

The 'Anomalies' of the Neoliberal Approach of the Transformation

While the neoliberal paradigm has continued to exert strong influence in mainstream economic and policymaking circles, it is plagued by numerous conceptual and empirical problems. These flaws have been meticulously dissected on a general level in the works of institutionalist and Marxian political economists, including, amongst others, Ha-Joon Chang, Joseph Stiglitz, Gérard Duménil and Dominque Lévy, David Harvey, Chris Harman, and Alfredo Saad-Filho.[90] Below, we highlight three lines of criticisms, which are believed to be the most relevant for our thesis.

The first problem with the neoliberal approach is its *static* comparative approach to the double transformation in CEE and the former Soviet Union. Simply put, in order to have an exception in historical development one must have a norm with which to compare it. The norm usually referred to is that of the advanced 'capitalist' states in Western Europe and North America, which provide a model for 'normal' socio-economic and political development. The comparative model assumed by neoliberals understands 'socialism' and 'capitalism' as two *separate* systems, rather than as parts of a 'totality' mediated by the

[87] Andreas Pickel, 'Neoliberalism, Gradualism, and Some Typical Ambiguities in the Transformation Debate', *New Political Economy*, 1997, Vol. 2, No. 2, p. 228.
[88] Bönker et al., 'Cross-Disciplinary Approaches to Transformation...', pp. 6-12; Shields, *The International Political Economy of Transition*, p. 25.
[89] László Andor, 'Hungary in the Financial Crisis: A (Basket) Case Study', *Debatte. Journal of Contemporary Central and Eastern Europe*, 2009, Vol. 17, No. 3, pp. 285-296; Gowan, 'Neo-Liberal Theory and Practice for Eastern Europe'; Hardy, *Poland's New Capitalism*; Harvey, *A Brief History of Neoliberalism*; Shields, op. cit.
[90] Ha-Yoon Chang, *Kicking Away the Ladder: Development Strategy in Historical Perspective*, London: Anthem Press, 2002; Duménil and Lévy, *Capital Resurgent*; Harvey, op. cit.; Harman, 'Theorising Neoliberalism'; Saad-Filho, 'Marxian and Keynesian critiques of neoliberalism'; Stiglitz, *Globalization and its Discontents*. Other important critiques of neoliberalism include Mirowski and Plehwe, *The Road from Mont Pelerin*; Mudge, 'What is neo-liberalism?'; Peck, 'Remaking laissez-faire' and *Constructions of Neoliberal Reason*; Plehwe et al., *Neoliberal Hegemony*; Turner, *Neo-Liberal Ideology*.

world market. Such a model fails to recognise the striking *similarities* that existed between the regimes that prevailed on the two sides of the Iron Curtain. This effectively leads to an *ahistorical* understanding of the transformation, based on a misleading conception of how capitalist markets operate, while ignoring the historical role of the (capitalist) state in promoting economic development within its territory, and its continued role in furthering capital accumulation.[91] The necessary outcome of this is that the Soviet-style regimes represented a historical *aberration*, which could only cured by replacing the outdated structures of ‘socialism’ with the market.

The above points relate to a second problem with the neoliberal approach regarding its unconvincing account of *how* neoliberalism supposedly conquered the ‘hearts and minds’ of reformers in the East. To put it simply, the transition from central planning to a free market economy, along neoliberal lines, is usually perceived as self-explanatory. This view is aptly summarised by Aligica and Evans as follows, ‘Because the system inspired by the Marxist political economy is did not “deliver the goods”, Marxist economics ideas were rejected: an example of “marketplace of ideas” at work and a straightforward explanation of the process of ideas diffusion and change in Eastern Europe.’[92] According to this view, neoliberal ideas and policies were, by and large, voluntarily embraced by political and economic elites in Eastern Europe after 1989. For example, Kornai argues that ‘a certain level of external political pressure was also discernible’, but goes on to claim that, ‘Not a single foreign country, not even the great powers, “pushed” the small countries of Central Eastern Europe around.’[93] However, critical studies of the transformation have demonstrated that neoliberalism have pointed to the coercive methods employed by hegemonic Western powers and international financial institutions in order to create neoliberal regimes that were open to the exigencies of global capital.[94] Moreover, as Bohle and Neunhöffer point out with regard to Poland, neoliberal economic reforms were not necessarily symbiotic with the political traditions in the region, meaning that ‘shock

[91] Hardy, *Poland’s New Capitalism*, pp. 33-34; Shields, *The International Political Economy of Transition*, p. 26.
[92] Paul D. Aligica and Anthony J. Evans, *The Neoliberal Revolution in Eastern Europe: Economic Ideas in the Transition from Communism.* Cheltenham: Edward Elgar, 2009, p. 1.
[93] Kornai, ‘The Great Transformation of Central Eastern Europe’, p. 225.
[94] Dorothee Bohle and Gisela Neunhöffer, ‘Why is There No Third Way? The Role of Neoliberal Ideology, Networks and Think Tanks in Combating Market Socialism and Shaping Transformation in Poland’, in *Neoliberal Hegemony: A Global Critique,* edited by Dieter Plehwe, Bernhard A. Walpen, and Gisela Neunhöffer, London: Routledge, 2006, pp. 89-104; Gowan, ‘Neo-Liberal Theory and Practice for Eastern Europe’.

therapeutic programme[s] had to be implemented against much of its own social base and intellectual tradition.'[95]

These above points directly relate to a third, and final problem with the neoliberal approach regarding its difficulties to account for the 'anomalies' of the transformation in CEE. Although attempts at assessing the balance sheet of 'actually existing neoliberalism' remain the subject of much 'controversy'[96] in the academia, the empirical track record of neoliberalism in the region, in terms of overcoming the problems of low economic growth and poverty, appears to be far from convincing.[97] Evaluating the balance sheet of neoliberal reform in CEE and the former Soviet Union two decades after the transition, Mitchell A. Orenstein recently noted that, '[r]apid reform produced many success stories, including entrepreneurs who made fortunes trading cars or consumer goods, or transformed state owned enterprises to make millions. However, the shock program also produced massive dislocations among less resilient sectors and social groups.'[98] *Contra* the promises of neoliberal economists and policymakers, and notwithstanding what effectively constituted 'the most dramatic episode of economic liberalisation in economic history',[99] the 1990s turned out to be a 'lost decade' for most of CEE and the former Soviet Union, as the transformation economies experienced a 'regional Great Depression'[100] unprecedented in peace times. According to the EBRD, in 2002, 12 years after the transition, most countries had not returned to their 1989 levels of output.[101] In Hungary, one of the supposed 'success stories' of the region, with a high degree of market activity and disproportionately large share of the region's foreign direct investment inflows, transition-associated adjustment between 1988-1995 destroyed more economic assets than did World War II and resulted in the loss of almost 1.5 million jobs (almost one-third of the

[95] Bohle and Neunhöffer, 'Why is There No Third Way?', pp. 89.
[96] Stiglitz. *Globalization and its Discontents*, p. 152.
[97] Harvey, *A Brief History of Neoliberalism*, pp. 152-182; Harman, 'Theorising Neoliberalism'; John Weeks, 'The Expansion of Capital and Uneven Development on a World Scale', *Capital & Class*, 2001, Vol. 25, No. 2, pp 9-30. In fact, as the former World Bank economist William Easterly admits, although neoliberal economic reforms '*should* have led to accelerating, not falling growth', the *opposite* happened in the last two decades of the 20th century. Between 1980-1999, median per capita growth rates in developing countries stood at zero percent, down from 2.5 percent per year between 1960-1979. Wiliam Easterly, 'The Lost Decades: Developing Countries' Stagnation in Spite of Policy Reform, 1980-1998', *Journal of Economic Growth*, 2001, Vol. 6, No. 2, p. 154.
[98] Mitchell A. Orenstein, 'What happened in East European (political) economies? A balance sheet of neoliberal reform', *East European Politics & Societies*, 2009, Vol. 23, No. 4, p. 484.
[99] Peter Murrell, 'How Far has the Transition Progressed?', *Journal of Economic Perspectives*, 1996, Vol. 10, No. 2, p. 31.
[100] World Bank, *Transition – The First Ten Years. Analysis and Lessons for Eastern Europe and the Former Soviet Union*, Washington, DC: World Bank, 2002.
[101] EBRD, *Transition Report 2002: Agriculture and Rural Transition*, London: EBRD, 2002.

workforce).[102] Elsewhere in the region, the situation has been even bleaker. Georgia, Moldova, Ukraine, and much of the former Yugoslavia experienced catastrophic declines in economic output.[103] Russia, historically the most important case, was by the end of the 1990s a 'black hole'. Between 1990 and 1999 economic output contracted by a whopping 54 percent in GDP terms and industrial production fell by more than 60 percent – greater than what Soviet Russia suffered in World War II and more than that experienced by the United States during the Great Depression. Farm livestock decreased by half, while its grain harvest more than halved in the five years from 1993, dropping beneath its pre-World War I level. Money disappeared from much of economic life so that, by early 1998, half of industrial sales were completed through barter.[104]

For the overwhelming majority of the population in the region the consequences of neoliberalisation have been catastrophic. As a result of transition-associated adjustments, unemployment and precarious working conditions have become chronic features of CEE societies, as the 'job security' associated with 'actually existing socialism' disappeared.[105] In the 1990s, real wages for CEE workers plummeted, on a scale that exceeded those of the Great Depression.[106] In 1999, ten years after the transition, real wages were still lagging behind their 1989 levels in all countries except the Czech Republic; in Hungary real wages were 19 percent less, while in many other countries (including Bulgaria, Lithuania, Macedonia, and Ukraine) it was around half that level. The fall was particularly steep in Russia, where real wages, in 1999, stood at a meagre 38.2 percent of their 1989 levels.[107] As a result, inequality and poverty rates have skyrocketed, in some cases reaching Latin American levels. In some countries, like Russia, mortality rates, particularly among men, have soared, particularly in those regions where income differences were the widest.[108] Women have also suffered from the collapse of families, although many adapted better to the new market conditions. Ethnic minorities, such as the Roma, have also been hit hard by the neoliberalisation of the former centrally planned economies. In many countries, such as

---

[102] Szalai, *New Capitalism...*; Tamás, 'Counter-revolution against a counter-revolution'. We discuss this in further detail in Chapter 5.
[103] EBRD, *Transition Report 2002*; World Bank, *Transition – The First Ten Years*.
[104] Simon Pirani, *Change in Putin's Russia: Power, Money, and People*, London: Pluto Press, 2009, pp. 47-53; Stiglitz. *Globalization and its Discontents*, pp. 133-165.
[105] Kornai, 'The Great Transformation of Central Eastern Europe', pp. 227-232.
[106] Nikolai Genov, *Global Trends in Eastern Europe*, Aldershot: Ashgate, 2010, p. 138; Gowan, 'Neo-Liberal Theory and Practice for Eastern Europe'.
[107] Genov, *Global Trends in Eastern Europe*, Table 4.2, p. 138.
[108] Richard Wilkinson, *The Impact of Inequality: How to Make Sick Societies Healthier*, London: Routledge 2005, p. 118.

Bulgaria, Poland, Romania, and Ukraine, emigration became the only solution as people sought refuge in the west from catastrophic economic conditions at home and human trafficking exploded.[109]

Economic growth finally returned to the region in the 2000s, although the benefits were by no means shared universally. However, rather than proving the validity of neoliberal theory, the growth spurt of the 2000s weakened the correlation between democratisation and capitalism, which is usually taken for granted by most neoliberals.[110] Moreover, the neoliberal regimes that evolved in CEE turned out to be particularly badly hit by the global economic crisis that began in 2007. 'Indeed,' as Orenstein notes, their greater openness to international trade and their foreign-owned banking systems may have made them more vulnerable to the collapse of the Western financial system.'[111] As we describe in further detail in Chapter 6, Hungary has also been badly affected by the crisis and in October 2008 it became the first country in the region to seek a bailout programme from international lenders.

Neoliberals have largely failed to provide a convincing explanation of these developments. Instead, neoliberal accounts have, at best, remained *ad hoc* or, at worst, descended into thinly veiled apologies for neoliberal shock therapy. According to most advocates of radical market reform, the failures and disappointments of transition-associated adjustment in the 1990s were 'unexpected'.[112] As Kornai observed in the early 1990s with a sense of astonishment, no 'forecast of … serious recession [can] be found in the early theoretical writings to outline the program for the transition.'[113] Others have *ex post facto* sought to downplay the colossal slump in economic output after 1989, insisting that 'a substantial part of the big recorded decline, probably about half, was *not real*',[114] while at the same arguing that the economic decline that did take place was *exogenous* to the market and the result of negative legacies associated with 'socialism', such as 'corruption', 'premature

---

[109] Orenstein, 'What happened...', p. 484.
[110] As Orenstein (Ibid., p. 487) points out, 'The fastest growing economies in CEE were Russia, Ukraine, Latvia, and Slovakia (not to mention Turkmenistan and Uzbekistan), hardly a testament to the greater growth performance of democracies.'
[111] Ibid., p. 485.
[112] World Bank, *Economic Growth in the 1990s: Learning from a Decade of Reform*, Washington, DC: World Bank, 2005, p. xii.
[113] Kornai, here cited in Alice Amsden, Jacek Kochanowicz, and Lance Taylor, *The Market Meets its Match: Restructuring the Economies of Eastern Europe*, Cambridge, MA: Harvard University Press, 1994, p. 18.
[114] Åslund, *How Capitalism was Built...*, p. 63 (my emphasis).

welfare state', and 'rent-seeking behaviour'.[115] Comments like these reveal inability of the neoliberal economics to account for the contradictions of the double transformation, while, at the same time, highlighting the implicitly *political* nature of neoliberalism. The point of the transformation was *not* simply to liberate CEE from the shackles of 'communism', or to liberate latent entrepreneurial talent, as emphasised by neoliberals, but to open up the economies of the region to the exigencies of global capital, while furthering the class power of domestic elites. The outcome of this has been a growing disillusionment with simplistic plans for the installation of a market economy. As a result, more nuanced accounts, seeking to salvage capitalism, while emphasising a more 'gradual' approach to transformation, gained influence in academic and policymaking circles. It is to these that we turn our attention next.

'Institutional Fixes'

Although the neoliberal approach to the transformation was deeply influential in post-Soviet CEE, it has been far from uncontested. As the early capitalist triumphalism was sobered by the grim realities of 'actually existing neoliberalism' in the region, social scientists from other fields, including anthropologists, comparative political economists, historians, and sociologists, began to challenge the dominance of neoliberal economics. The common thread in these works is an acknowledgment that the implementation of what some have characterised as 'designer capitalism'[116] in the region was far more problematic than its neoliberal architects had anticipated. Orenstein is worth quoting at length here. He contends that neoliberals,

> regarded institutional reform as distinctively secondary, to be left, perhaps for a second stage of transition. Some important items were left off the list almost entirely, particularly reform of the social sector, such as health, education and welfare. Only unemployment insurance was a priority area. … Furthermore, neoliberals offered very few substantive ideas or theories of how to restructure supporting institutions of the capitalist economy, such as banks, courts and universities. Neoliberal blueprints emphasized spontaneous adjustment to

[115] Åslund, *How Capitalism was Built*, p. 63.
[116] Claus Offe, *Varieties of transition: the East European and East German experience,* Cambridge: Polity Press, 1996; David Stark, 'From System Identity to Organizational Diversity: Analyzing Social Change in Eastern Europe', *Contemporary Sociology*, 1992, Vol. 21, No. 3, pp. 299-304.

market signals and offered little guidance on restructuring institutions, short of destroying them altogether or "privatizing" them.[117]

The failures and disappointments of the initial efforts of neoliberal restructuring throughout the region and the variegated patterns of development and ongoing problems in even the most successful cases, enabled critics of neoliberalism to gain increasing legitimacy in academic and policymaking debates. This has been reflected in the development of more nuanced accounts, which have emphasised that markets are not a 'natural' phenomenon, but are *socially embedded* and *politically constructed* (and thus potentially *contested*) institutions, while also stressing the key role of *historical, social, and cultural legacies*, as well as economic and political actors, in particular *the state*, in fostering sustainable capitalist development. These works draw on the theoretical insights of heterodox economics, comparative and evolutionary sociology, as well as the growing body of literature associated with the Varieties of Capitalism (VOC) framework. Key theoretical influences include, amongst others, Friedrich List, Max Weber, Alexander Gerschenkron, John M. Keynes, Karl Polanyi, and more recently Oliver Williamson, Douglass C. North, Joseph Stiglitz, and Peter Hall and David Soskice.[118] I call this the *institutionalist approach*, since the various authors included under the heading of this approach all emphasise the importance of building strong institutions to counteract the more negative forces of (neoliberal) 'globalisation'.[119]

---

[117] Mitchell A. Orenstein, *Out of the Red: Building Capitalism and Democracy in Postcommunist Europe*, Ann Arbor, MI: University of Michigan Press, 2001, pp. 13-14.
[118] The key texts of these scholars include: Friedrich G. List, *The National System of Political Economy*, Philadelphia, PA: JB Lippincott & Co, 1856; Max Weber, *The Protestant Ethic and the Spirit of Capitalism*, Oxford: Blackwell, [1904-5]/2002; John M. Keynes, *The General Theory of Employment, Interest and Money*, London: Macmillan, [1936]/1960; Karl Polanyi, *The Great Transformation: The Political and Economic Origins of Our Time*, Boston, MA: Beacon Press, [1944]/2001; Oliver E. Williamson, *The Economic Institutions of Capitalism*, New York, NY: The Free Press, 1985; Douglass C. North,*Institutions, Institutional Change and Economic Performance*, Cambridge: Cambridge University Press, 1990; Stiglitz. *Globalization and its Discontents*, and *id.*, *Making Globalization Work*, London: Penguin Books, 2006; Peter A. Hall and Derek Soskice (eds.), *Varieties of Capitalism: The Institutional Foundations of Comparative Advantage*, Oxford: Oxford University Press, 2001.
[119] Key works within the institutionalist approach to the transformation include, amongst others, Amsden et al., *The Market Meets its Match*; László Andor, *Hungary on the Road to the European Union: A Transition in Blue*, Westport, CT: Greenwood Press, 2000 and *id.*, *Eltévedt éllovas*; László Andor and Martin Summers, *Market Failure: A Guide to Eastern Europe's 'Economic Miracle'*, London: Pluto Press, 1998; Dorothee Bohle and Béla Greskovits, 'Neoliberalism, Embedded Neoliberalism and Neocorporatism: Towards Transnational Capitalism in Central-Eastern Europe, *West European Politics*, 2007, Vol. 30, No. 3, pp. 443-466, *id*. 'The State, Internationalization, and Capitalist Diversity in Eastern Europe', *Competition & Change*, 2007, Vol. 11, No. 2, pp. 89-115, *id*. 'Varieties of Capitalism and Capitalism "tout court"', *European Journal of Sociology*, 2009, Vol. 50, No. 3, pp. 355-386, id. *Capitalist Diversity on Europe's Periphery*; Lawrence King, 'Postcommunist Divergence: A Comparative Analysis of the Transition to Capitalism in Poland and Russia', *Studies in Comparative International Development*, 2002, Vol. 37, No. 3, pp. 3-34; Stark, 'From System Identity to Organizational Diversity' and *id.* 'Recombinant Property in East European Capitalism',

In the section that follows, I distinguish between three different schools of thought within the insitutionalist approach: 1) evolutionary sociology; 2) institutional economics; and 3) more recently, attempts to combine the two, as represented in the collective work of Dorothee Bohle and Béla Greskovits. As we shall see below, in this literature, Hungary is (together with the Czech Republic, Poland, Slovakia, and Slovenia) usually contrasted with other countries in the region, in particular the Baltic States and Russia, as a positive example of transformation by virtue of its allegedly more *gradual*, *politically stable*, and socially *embedded* transition to capitalism.

Evolutionary Sociology: Path Dependency and the Role of Historical Legacies in the Transformation

The first school of thought within the institutionalist approach draws on the theoretical insights of evolutionary sociology.[120] This school originally developed as a critique of the early transformatology literature, which was, as we noted above, dominated by neoliberal accounts. According to its proponents the insistence on rapid, radical, and comprehensive institutional change, emphasised by neoliberal economists, was 'erroneous' and based on a series of 'flawed' and 'teleological' theoretical assumptions, which are only true under artificial circumstances. Thus, according to David C. Stark, the neoliberal literature on the transition 'replicates the errors of modernization theory', by postulating a positive direction of change while abolishing conflict and chaotic change to residual categories. As he goes on to argue, seemingly descriptive notions, such as 'transition to capitalism' or 'transition to a market economy', are in fact, 'teleological concepts driven by hypothesized end states.'[121] Hence, rather than the neoliberal emphasis on a straightforward, unilinear

---

American Journal of Sociology, 1996, Vol. 101, No. 4, pp. 993-1027; David Stark and László Bruszt, *Postsocialist Pathways: Transforming Politics and Property in East Central Europe*, Cambridge: Cambridge University Press, 1998 and *id.* 'One Way or Multiple Paths: For a Comparative Sociology of East European Capitalism', *American Journal of Sociology*, 2001, Vol. 106, No. 4, pp. 1129-1137; ; Stiglitz, *Globalization and its Discontents*.

[120] Excellent works from the evolutionary school of thought include Gil Eyal, Iván Szelényi, and Eleanor Townsley 1997, 'The Theory of Post-Communist Managerialism', *New Left Review*, 1998, Vol. 1, No. 222, pp. 60-92; King, 'Postcommunist Divergence...'; Edmund Mokrzycki and Christopher B.A. Bryant (eds.), *The New Great Transformation?: Change and Continuity in East-Central Europe*, London: Routledge, 1994; Peter Murrell, 'Evolutionary and Radical Approaches to Economic Reform', *Economcis of Planning*, 1992, Vol. 25, No. 1, pp. 79-95; Stark, 'From System Identity to Organizational Diversity' and 'Recombinant Property in East European Capitalism'; and Stark and Bruszt, op. cit..

[121] Stark, 'From System Identity to Organizational Diversity', p. 22.

transition from central planning to a market economy and from authoritarianism to democracy, evolutionary sociologists are instead concerned with:

> *[t]ransformations*, in which new elements emerge through adaptations, rearrangements, permutations, and reconfigurations of existing organisational forms. Instead of institutional vacuum we examine institutional legacies rethinking the metaphor of collapse to ask whether differences in how the pieces fell apart have consequences for rebuilding new institutions. Instead of examining country cases according to the degree which they conform to or depart from a preestablished model, we see differences in kind and ask how different paths of extrication from state socialism shape different possibilities of transformation.[122]

By conceiving of transformation in this way it becomes possible to combine both present incentives and the role of historical legacies. The idea that capitalism can be 'applied', according to a universal neoliberal blueprint, is mistaken and ironically ends up 'duplicat[ing] the rationalist fallacy evidenced during the introduction of socialism with, for example, the Leninist notion that property relations could be changed overnight by administrative decree.'[123] One of the major contributions of evolutionary sociologists then, is to 'bring history back in' to the transformation debate.[124]

How then do the structures and behaviours of agents inherited from 'state socialism'[125] shape the process of transformation? Stark and Bruszt have proposed a 'path dependency model of transformation', which emphasises *continuity* of pre-transformation social processes forward into the transformation. They argue that the different 'paths of extrication from state socialism' – distinguishing between 'capitulation' of 'communist' regimes in Czechoslovakia and the German Democratic Republic (GDR) in the wake of pressures from civil society; a 'compromise' between the 'communist' regime and the Solidarity leadership in Poland; or 'unfettered electoral competition' between 'reform communists' and the political opposition in Hungary (and, to a more limited extent, in

---

[122] Stark and Bruszt, *Postsocialist Pathways...*, p. 117 (my emphasis). See also Terry Cox and Bob Mason, *Social and Economic Transformation in East Central Europe: Institutions, Property Relations, and Social Interests*, Cheltenham: Edward Elgar, 1999; Murrell, 'Evolutionary and Radical Approaches to Economic Reform'; Mokrzycki and Bryant, *The New Great Transformation*; Stark, 'From System Identity to Organizational Diversity' and 'Recombinant Property in East European Capitalism'.
[123] Stark and Bruszt, op. cit., p. 81.
[124] Dorothee Bohle, 'Internationalisation": An issue neglected in the path-dependency approach to post-communist transformation', in *Democratic and Capitalist Transitions in Eastern Europe*, edited by Michel Dobry, Dordrecht: Kluwer Academic Press, 2000, p. 237; Hardy, *Poland's New Capitalism*, p. 35; Shields, *The International Political Economy of Transition*, p. 27.
[125] For a definition of the term, see Stark and Bruszt, op. cit., p. 3.

Bulgaria, Romania, and Albania) – influenced the political institutions and forms of interest intermediation between state and society that emerged after 1989.[126] The transformation in CEE and the former Soviet Union is thus viewed as a *path dependent* process: historically developed structures and institutions simultaneously constrain and provide resources for post-Soviet restructuring. Path dependency means that the number of development paths that a country can embark upon is limited, and that different societies follow different development paths. Thus, instead of moving towards one 'optimal' model of capitalism, as alleged by neoliberal economists, evolutionary sociologists suggest multiple national and regional trajectories and constraints. Stark and Bruszt, for example, have demonstrated how 'informal' relations and structures (the second economy, informal networks between managers of state owned enterprises and political and economic actors, etc.) shaped the transformation process. Whereas the formal institutions of 'state socialism' collapsed rapidly, these informal practices, routines, and parallel structures provide the context and resources for post-socialist change.[127] As we shall see below, the notion of 'path dependency' has become influential in the transformatology literature, as well as amongst policymakers attempting to apply standard policy options, transfer successful policies, or establish institutional structures in the region drawn from more advanced capitalist economies in the West.

Institutionalist Economics

The second school of thought within the institutionalist approach evolved from an attempt to explain *why* neoliberal shock therapy failed so miserably in promoting economic growth and prosperity in CEE and the former Soviet Union after 1989-1991. This school was formed on the basis of a number of pre-existing theories of late capitalist development (including neo-Listian political economy, institutional economics, and Keynesianism), but, as we shall show here below, its interventions in refuting neoliberalism in the region, as well as elsewhere in the world, have given it a coherence as a school of thought.

---

[126] Stark and Bruszt, ''One Way or Multiple Paths…', pp. 15-48.
[127] Stark and Bruszt, *Postsocialist Pathways...*

On the general level, institutionalist economists are highly critical of neoliberalism, which they perceive as a form of 'market fundamentalism' or 'market Maoism'[128]. Drawing on the laissez-faire economic policies advocated by the Manchester school of economics in the 19th century, proponents of neoliberalism argue that free markets, 'unfettered' from government intervention and market regulation, provide the best solution to economic and social problems. Institutionalist economists generally perceive neoliberalism as an *ideologically* driven attack on the welfare state in its different forms (from the 'Keynesian compromise' that prevailed in Western Europe and, to a lesser extent, the United States, through the 'developmentalist state' in the Global South, to 'state socialism' in the Soviet bloc). This ideological project, which began in response to the debt crisis of the mid-1970s, was led by a vanguard of conservative economists, such as Milton Friedman, Friedrich von Hayek, who were frequently connected to influential neoliberal think tanks in the West, like the Mont Pelerin Society or the Adam Smith Institute. Following the conservative ascendancy of Margaret Thatcher and Ronald Reagan in the late 1970s and early 1980s, this free market ideology became prominent in international policymaking circles, and eventually came to constitute the foundation of the 'Washington Consensus' – forged in the late 1980s between the Bretton Woods institutions of the IMF and the World Bank, and leading Western governments. However, according to institutionalist economists, neoliberal economic policies were based on 'flawed assumptions' about the functioning of capitalism, and failed to take into consideration the importance of *sequencing* and *pacing* of market reforms, as well as the crucial role played by *institutions*, in particular the state, in *embedding* capitalist social relations in societies where institutions are weak and information not widely available – conditions that prevail in most developing countries, as well as the transition economies in the early 1990s.[129]

When it comes to the 'transition'[130] in CEE and the former Soviet Union, institutionalist economists have criticised neoliberals for promoting 'one-size-fits-all' policies', insisting on macroeconomic stability and rapid structural adjustment. According to institutionalist

---

[128] The term was coined by Andor and Summers (in *Market Failure…*), in order to describe the proponents of neoliberalism in CEE in the 1990s, whose blind fate in the blessings of the market were akin to the utopianism that characterised the economic reforms of Mao's China (with the only difference that this time, the 'great leap forward' was from 'communsim' to 'capitalism' and not *vice versa*).
[129] Amsden et al., *The Market Meets its Match*; Andor and Summers, op.cit.; Kozul-Wright and Rayment, *The Resistable Rise of Market Fundamentalism*; Stiglitz. *Globalization and its Discontents*.
[130] In contrast to evolutionary sociologists, but similar to the representatives of the neoliberal approach, most institutionalist economists continue to describe the (economic, political, and social) changes taking place in CEE and the former Soviet Union since 1989 under the term of 'transition'.

economists, these policies failed to take into account the importance of *sequencing* and *pacing* of market reforms, as well as the crucial role played by *institutions*, in particular the state, in *embedding* capitalist social relations in societies where institutions are weak and information not widely available – conditions that have historically prevailed in 'developing countries', including the 'transition economies' in the early 1990s.

The classical exposition of this position is Alice Amsden et al. (1994), where it is argued that neoliberal economic policies did *not* result in the establishment of market institutions necessary for long-term capital accumulation, but instead led to the creation of 'pseudo-capitalism', an economic system characterised by simple market exchange, political instability, and rising social inequalities.[131] However, Amsden et al. argued that the multiple failures of neoliberal restructuring were *not* intrinsic to capitalism itself, but rather the result of 'copying the wrong capitalist model'.[132] Hence, all was not lost for the CEE transition economies. Drawing on the insights of neo-Listian political economy and previous examples of successful 'catch-up' development by economically 'backward' countries (e.g. the semi-industrialised economies in southeast Asia and Latin America, and, more recently, the 'post-socialist' economies of China and Vietnam), the authors emphasised that the development of some sort of 'Western-style corporatist social order' was still possible in CEE.[133] In order for this to succeed, however, there was a need to break with neoliberal orthodoxy, and allow the state to play a proactive role in the formulation of trade, industry, technology, and agricultural policy.[134] As Amsden et al. concluded,

> Despite all its problems, the post-socialist transition can still succeed. The essential precondition is that orthodox economics yield to *common sense*. In Eastern Europe … common sense dictates four courses of action: encouraging macroeconomic expansion; creating conditions under which viable state-owned enterprises can self-select themselves in to growth; giving these state-owned enterprises (as they turn into privately owned enterprises) adequate institutional support to generate saving, aid investment, and further

131 Amsden et al., *The Market Meets its Match*, pp. 2, 13.
132 Ibid., p. 4.
133 The classical work of Listian political economy is List, *The National System of Political Economy*. See also Alexander Gerschenkron, *Economic Backwardness in Historical Perspective*, Cambridge: Harvard University Press, 1962. For an excellent critique of Friedrich List and his contemporary followers in the academia, see Ben Selwyn, 'An historical materialist appraisal of Friedrich List and his modern day followers', *New Political Economy*, 2009, Vol. 14, No. 2, pp. 157-180 and *id*. 'Trotsky, Gerschenkron and the political economy of late capitalist development', *Economy & Society*, 2011, Vol. 40, No. 3, pp. 421-450.
134 Amsden et al., op. cit., p. 209.

technical advance; and empowering a government bureaucracy that can harmonize political democracy with the degree of economic governance that modern capitalism requires.[135]

A similar account has been provided by the renowned post-Keynesian economist Joseph E. Stiglitz. A former Chairman of President Clinton's Council of Economic Relations and ex-Chief Economist at the World Bank, Stiglitz played an important role in the extension of neoliberal reforms across the world in the 1990s. However, following his abrupt dismissal from the World Bank in January 2000, he turned into one of the most vocal critics of 'market fundamentalism' and the international organisations that have sustained it across the world, whom he blamed for 'mismanaging' the process of economic globalisation and making many 'Third World' and 'ex-communist' states worse off than they were before.[136] According to Stiglitz, the many failures of neoliberal shock therapy were not, as its advocates have claimed, due to '*too little* shock, and *too much* therapy' or in the way the reforms were implemented, but went deeper: 'to a misunderstanding of the foundations of a market economy, as well as a failure to grasp the fundamentals of reform processes.' As he went on to argue,

> at least part of the problem was an excessive reliance on textbook models of economics. Textbook economics may be fine for teaching students, but not for governments trying to establish from anew a market economy … A part of the problem also rose from confusing means with ends: taking, for instance, privatization or the opening of capital accounts as a mark of success rather than means to the more fundamental ends. Even the creation of a market economy should be viewed as a means to broader ends. It is not just the creation of market economy that matters, but the improvement of living standards and the establishment of the foundations of sustainable, equitable, and democratic development.[137]

Based on a comparison of different reform strategies pursued by transition economies in the 1990s, Stiglitz argues that those countries that heeded the advice of the Washington Consensus and pursued 'radical' economic reforms, including the Czech Republic and Russia, fared *worse* than those that pursued 'gradualist' policies, such China, Hungary, Poland, and Slovenia, in terms of building functioning market institutions, long-term

---

[135] Amsden et al., *The Market Meets its Match*, p. 206 (my emphasis).
[136] Joseph E. Stiglitz, *Whither Reform? Ten Years of the Transition*, paper prepared for the Annual Bank Conference on Development Economics, Washington, DC, 28-30 April 1999, Washington, DC: World Bank, *id. Globalization and its Discontents*, and *id. Making Globalization Work*, London: Penguin Books, 2006.
[137] Stiglitz, *Whither Reform?*, p. 3.

economic growth, privatisation, social inclusion, and political stability.[138] The gradualism of the Chinese transformation, although carried out by an authoritarian regime, received particular praise by Stiglitz, and was promoted as a model to follow for other countries.[139] During the 1990s, the Chinese economy grew at an average rate of more than 10 percent, while the Russian economy *shrank* by an annual rate of 5.6 percent. As a result, by the end of the decade, Chinese real incomes measured in PPP terms were comparable to those of Russia. However, whereas China's transition had resulted 'the largest reduction in poverty in history in such a short time span (from 358 million in 1990 to 208 million in 1997, using China's admittedly lower poverty standard of US$ 1 a day), Russia's transition has entailed one of the largest increases in poverty in history in such a short span of time (outside of war and famine).'[140] Consequently, the example of China, and, to some extent, Hungary and Poland, showed that, *contra* the proponents of neoliberal shock therapy, *there were* alternative transformation strategies available to policymakers in 'transition economies', and, when these policies were coherently pursued, they often led to more sustainable economic growth.

In Hungary, such views have been most coherently and persistently argued by László Andor, a progressive economist and former economic advisor to the Hungarian Socialist Party (MSZP), who has written extensively on the transition to a free market economy and parliamentary democracy in Hungary.[141] In many respects Andor's conceptualisation of the transition in post-Soviet CEE is analogous to that offered by Amsden et al. and Stiglitz. Hence, similar to Amsden and Stiglitz, Andor locates the transition within the context of the deepening *economic* crisis of 'state socialism' in Hungary and elsewhere in the region from the 1970s and onwards, and the wider *ideological* shift from Keynesianism to neoliberalism in economic policymaking. However, in contrast to the above authors, Andor provides a more detailed and sophisticated account of the ascendancy of

[138] Stiglitz. *Globalization and its Discontents*, pp. 180-194. (It should, however, be noted that Stiglitz' characterisation of Poland as a 'gradualist' reformer does not stand up to scrutiny. On the contrary, ever since the introduction of the Sachs-Balcerowicz Plan in 1990, the country has been widely recognised as a leader of 'radical' economic reforms in the region by academics, international investors, and policymakers.)

[139] Ibid, pp. 180-187. (It should to be noted that Stiglitz, together with fellow Nobel laureate in Economics Kenneth Arrow, served as an economic adviser to the Chinese government on its transition from central planning to the market economy.)

[140] Ibid., pp. 181-182.

[141] Andor*, Hungary on the Road to the European Union*, id. 'Social Democracy and Economic Policy in Hungary, 1990-2005', in *Regimes and Transformations: Hungary in the Twentieth Century*, edited by István Feitl and Balázs Sipos, Budapest: Napvilág Kiadó, 2005, pp. 429-464, and *id.* 'Hungary in the Financial Crisis: A (Basket) Case Study', *Debatte. Journal of Contemporary Central and Eastern Europe*, 2009, Vol. 17, No. 3, pp. 285-296, and *id. Eltévedt éllovas*; Andor and Summers*, Market Failure...*

neoliberalism in Hungary, which places a stronger emphasis on the role of *domestic* economic and political actors and processes.

Drawing on Kornai's influential conceptualisation of the 'socialist' system, which we briefly outlined in the previous section, Andor traces the roots of Hungary's impending 'neoliberal restoration' to the deepening crisis of 'state socialism' from the 1970s and onwards.[142] By then, the material reserves of the command economy were increasingly becoming exhausted. Despite numerous attempts by the Kádár regime to introduce market reforms 'from above', the Hungarian economy failed to improve its competitiveness in the world market, resulting in economic stagnation and increasing indebtedness. As the economic crisis deepened in the 1980s, it led to an erosion of the social basis of the Kádár regime, accompanied by 'increasing internal and external pressures calling for more urgent and radical reforms'.[143] According to Andor,

> By the summer of 1989, the transition elite – including the members of the Németh government [the last 'communist' government in Hungary, in office between November 1988-May 1990], as well as vocal groups of the opposition – had arrived at their programme of a "market economy without adjectives" [*jelző nélküli piacgazdaság*]. In essence, this meant the rejection of any limitations upon the ownership of private property and the elevation of neoliberal economic philosophy to the programme of government.[144]

But how did this ideological *volte face* came about in the first place? According to Andor, three processes were essential.[145] The first was the growing influence of *external* actors, in particular the IMF or the World Bank, in economic policymaking from the early 1980s and onwards. In order to avert the threat of financial bankruptcy, the Kádár regime had joined the IMF and the World Bank in 1982. However, while membership in international financial institutions provided much-needed loans to the ailing Hungarian economy and brought the political recognition for the Kádár regime in the West, it proved to be a double-edged sword. As Hungary's debt crisis deepened in the 1980s, it became an increasingly powerful leverage in the hands of international financial institutions, enabling them to request Hungarian policymakers to implement radical economic reforms in

---

142 Andor, *Eltévedt éllovas*, pp. 15-26.
143 Ibid., pp. 27-29, 71 (my translation and emphasis).
144 Ibid., p. 160 (my translation).
145 Andor, 'Social Democracy and Economic Policy in Hungary'; *id*. 'Hungary in the Financial Crisis', pp. 160-180; Richard Phillips et al., 'Usurping Social Policy: Neoliberalism and Economic Governance in Hungary', *Journal of Social Policy*, 2006, Vol. 35, No. 4, pp. 585-606 (it should be noted that László Andor is one of the co-authors of this article).

exchange for further loans. Following the historical demise of ‘state socialism’ between 1989-1991, the countries of the region became a key laboratory for neoliberal reform. The IMF, World Bank, and regional bureaucratic organisations, such as the EU, now became active agents in market transition. According to Phillips et al., ‘Nowhere in this region, however, was the “power” of these agencies to frame the terms of economic management greater than in Hungary’.[146]

External pressures were, however, by themselves, not enough for neoliberal ideas to take hold inside Hungary. Thus, the second factor behind the ascendancy of neoliberalism in Hungary was the gradual ideological conversion of domestic intellectuals, somewhat akin to a Kuhnian ‘paradigm shift’ in the social sciences.[147] As Phillips et al. argue, ‘[w]hile foreign advocates of neoliberal reform had long-standing interests in Hungary and Eastern Europe more generally, it is clear that the dissemination of ideas did not simply flow from West to East. At the very least, the process involved a *dialogue* with reformers in the domestic sphere who were already sympathetic to policy propositions derived from neoliberal economics’.[148] Putting this argument to work, Andor shows that despite the ideological and political restrictions imposed by the Kádár regime following the crushing of the 1956 revolution, Hungarian intellectuals continued to have access to ‘Western’ ideas in economic theory, as well as in other areas. For example, at the prestigious Karl Marx University of Economics in Budapest (now the Corvinus University of Budapest), which then, as now, was considered to be the principal institution for the education of Hungary’s economic and political elite, ‘non-Marxist’ economics had been taught since the late 1950s, keeping students up-to-date on developments in neoclassical, Keynesian, and monetarist thought. A translated version of Keynes’ *magnum opus*, *The General Theory of Employment, Interest, and Money* (1936), had already been published in 1965, while the works of more radical neoclassical theorists, such as Milton Friedman and Friedrich Hayek were available to Hungarian economists by the early 1980s. Moreover, since 1964 Hungarian economists were able to travel to the United States for research purposes through Ford Foundation fellowships.[149] From the mid-1980s, the Soros Foundation, an

---

[146] Phillips et al., ‘Usurping Social Policy’, p. 586.
[147] Thomas Kuhn, *The Structure of Scientific Revolutions*, Chigaco, IL: University of Chicago Press, 1962.
[148] Phillips et al., op. cit., p. 589 (my emphasis). See also Andor, *Hungary on the Road to the European Union*.
[149] As Bockman has noted, Hungarian economists tended to visit universities, such as Harvard, Yale, Columbia, Berkeley, and Stanford, whose economic departments had a strong presence of neoclassical

influential private foundation set up by the Hungarian-American business magnate and philanthropist George Soros, began to offer intellectual and financial assistance for Hungarian dissidents favouring radical reforms and systemic change.[150] Hence, as Phillips et al. have pointed out, '[by] the dawn of the transformation process, neoliberal ideas were already well embedded in Hungary's "intellectual ether".'[151] To Hungarian reformers then, the terminal crisis of state socialism in the late 1980s seemed confirmed the validity of neoliberal doxa.

Third, and finally, Andor argues that Hungary's neoliberal transition also coincided with 'the concrete material interests of domestic economic actors'. This included powerful sections of the state bureaucracy, associated with the Ministry of Finance and the Hungarian National Bank (*Magyar Nemzeti Bank*, MNB), as well as sections of the economic and political elite, in particular the (neo)liberal SZDSZ and liberal sections inside the MSZP, who, according to Andor, all favoured a 'finance-driven' model of capital accumulation based on neoliberal shock therapy.[152] Unfortunately, however, he does not go into detail as to how this process took place.

As for the outcomes of Hungary's double transformation, Andor argues that they have been highly contradictory. Thus while Hungary's 'new capitalism' is characterised by a high degree of 'openness', the benefits of this have not 'trickled down' to ordinary Hungarians. Instead, the Hungarian economy continues to be plagued by its 'dualistic structure' (characterised by the coexistence of a technically advanced, highly productive manufacturing sector, largely controlled by multinational corporations, and an underdeveloped agricultural sector with low productivity and wages), and all the drawbacks that follow from it, in terms of high unemployment, regional inequality.[153] The onset of the 'global financial crisis' revealed the inherent weaknesses of this model. Drawing on the insights of Keynes, Andor has proposed the need to promote alternative economic policies, emphasising increased state economic intervention to promote

---

economists. Johanna Bockman, *Markets in the Name of Socialism: the Left-Wing Origins of Neoliberalism*, Stanford, CA: Stanford University Press, 2010, p. 128.

[150] Andor, 'Social Democracy and Economic Policy in Hungary', p. 431.

[151] Phillips, 'Usurping Social Policy', p. 588.

[152] Andor, *Eltévedt éllovas*, p. 161.

[153] Ibid., pp. 73-114.

employment growth, redistribution of income, and the achievement of long-term, ‘sustainable development’.[154]

Between ‘Old’ Institutionalism and ‘New’ Institutionalism: Bohle and Greskovits’ Interpretation of the Transformation

The third school of thought within the institutionalist approach comes from those that have sought to combine the insights of ‘old’ institutionalism, as epitomised by the work of Karl Polanyi, and ‘new’ institutionalism, as represented by the increasingly influential VOC approach.[155] This school is here associated with the work of Dorothee Bohle and Béla Greskovits, two comparative political economists based at the Central European University (CEU) in Budapest, who have written extensively on the emerging capitalist regimes in CEE.[156] Based on critical reading of the VOC literature, while also drawing on Karl Polanyi’s conceptualisation of capitalism[157], as well as Peter Katzenstein’s work on ‘small states’[158] and Gösta Esping-Andersen’s notion of different ‘worlds of welfare capitalism’[159], Bohle and Greskovits propose a typology of capitalist regimes in CEE based on Weberian ideal-typical distinctions between: 1) the ‘pure neoliberal’ regimes found in the Baltic states; 2) the ‘embedded neoliberal’[160] regimes in the four so-called ‘Visegrád states’ (V4) of Hungary, the Czech Republic, Poland, and Slovakia; and 3) the ‘neo-

---

[154] Andor, *Eltévedt éllovas*, pp. 208-219.
[155] The founding work of the VOC approach is Hall and Soskice, *Varieties of Capitalism...*. For an attempt to revise the original conceptual framework developed by the authors, see Bob Hancké, Martin Rhodes, and Mark Thatcher (eds.), *Beyond Varieties of Capitalism: Conflict, Contradictions, and Complementarities in the European Economy*, Oxford: Oxford University Press, 2007. For critiques of the VOC approach, see, for example, Chris Howell, ‘Review: “And Then There Was One?”: Varieties of Capitalism’, *Comparative Politics*, 2003, Vol. 36, No. 1, pp. 103-124; Kathleen Thelen, The Paradox of Globalization: Labor Relations in Germany and Beyond’, *Comparative Political Studies*, 2003, Vol. 36, No. 8, pp. 859-888; Colin Crouch and Henry Farrell, ‘Breaking the path of institutional development? Alternatives to the new determinism’, *Rationality and Society*, 2004, Vol. 16, No. 1, p. 5-43; David Coates (ed), *Varieties of Capitalism, Varieties of Approaches*, Basingstoke: Palgrave Macmillan, 2005; Leo Panitch and Sam Gindin, ‘Euro-Capitalism and American Empire’, in Coates, op. cit., pp. 135-159 2005; Pontusson, ‘Varieties and Commonalities of Capitalism’, in Coates, op. cit., pp. 163-188.
[156] Bohle and Greskovits, ‘Neoliberalism, Embedded Neoliberalism and Neocorporatism’; ‘The State, Internationalization, and Capitalist Diversty’; ‘Varieties of Capitalism and Capitalism “tout court”’; and *Capitalist Diversity on Europe’s Periphery*.
[157] Polanyi, *The Great Transformation*.
[158] Peter J. Katzenstein, *Small States in World Markets: Industrial Policy in Europe*, Ithaca, NY: Cornell University Press, 1985.
[159] Gøsta Esping-Andersen, *The Three Worlds of Welfare Capitalism*, Cambridge: Polity, 1990.
[160] The term is here taken from Apeldoorn, who used to describe the EU’s political economy under neoliberal hegemony. Bastian van Apeldoorn, *Transnational Capitalism and the Struggle over European Integration*, London: Routledge, 2002.

corporatist' regime existent in Slovenia.[161] On the basis of careful analysis of empirical data, Bohle and Greskovits argue that their socio-economic regimes differ from other varieties of post-socialist capitalism, and, to a lesser degree, between themselves, in three important aspects.

Firstly, similar to evolutionary sociologists, Bohle and Greskovits emphasise the enduring role of *past legacies*, including the distinct problems of state formation and nationalism, late capitalist development, 'paternalist welfare states', and a contradictory relationship with the 'West' in shaping the development of emerging capitalist regimes in the region. In this regard, Hungary was in many ways in a fortunate position compared to other countries in the region. Contrary to the Baltic States, the Czech Republic and Slovakia, and the former Yugoslav republics, reformers in Hungary managed to avoid the burdens of nation-state building in the 1990s (which in the case of Yugoslavia descended into war). Similar to Poland, the 'double transformation' to capitalism and parliamentary democracy in Hungary was achieved peacefully, through a 'negotiated revolution' between 'reform communists' and the opposition. In addition, Hungarian policymakers could, similar to Poland and Slovenia, draw on a long history of experimentation with 'reform socialism', which became an advantage following the transition to capitalism and democracy. This was supported by domestic elites, which consisted of an 'unholy alliance' between pragmatic and cooperative pro-democratic opposition groups, internationally linked and oriented financial and policymaking technocrats, and the reformist wing of the party-state. On the downside, however, both Hungary and Poland were limited in their economic policymaking choices due to the large external debts and macroeconomic imbalances accumulated in the 1980s. As a result, with the exception of Slovenia, all governments in the region embraced some form of economic neoliberalism.[162]

Second, Bohle and Greskovits distinguish between the different *accumulation strategies* pursued by the emergent capitalist regimes in the region. In terms of their transformational strategy, the V4 states occupy an intermediate position between the 'market radicalist' approach pursued by the Baltic States, based on a vigorous adherence to macroeconomic

[161] In their earlier work, the authors also included a fourth group, the 'world market driven neoliberalisms' associated with a number of countries in the Commonwealth of Indepent States (CIS), in their analysis. However, this group has been discarded altogether in more recent works. See Bohle and Greskovits, 'The State, Internationalization, and Capitalist Diversty'.

[162] Bohle and Greskovits . *Capitalist Diversity on Europe's Periphery*, pp. 55-82.

stability and radically liberalised markets, and the 'neocorporatist' model pursued by Slovenia, based on consensual industrial relations and an interventionist state. Motivated by the complex interplay of structural (inter-state rivalry, the existence of complex industries with well developed linkages to transnational corporations in advanced capitalist economies, etc.) and institutional factors (a potent mix of low, in some cases even flat, corporate taxes and generous investment incentives), the V4 economies were able to attract large inflows of foreign investment in the 1990s and 2000s. This, the authors contend, contributed to industrial upgrading and restructuring (most clearly evidenced in the car manufacturing and electronics industries), and helped to spur 'both virtuous and vicious circles of foreign-led accumulation.'[163] Among the V4 economies, Hungary has been a pioneer in pursuing a foreign-led accumulation strategy. Bohle and Greskovits trace the origins of this strategy to the huge external debt accumulated by the Kádár regime in the 1980s. Because of its obligations to service Hungary's large external debt, successive governments in Budapest were highly dependent on hard currency cash receipts, which, however, 'were only available from exports and privatisation.'[164]

Thirdly, and finally, Bohle and Greskovits point out that the capitalist regimes emerging in CEE also differ in terms of the degree of *political stability* and *social cohesion*. Governments in the 'pure neoliberal' regimes of the Baltic States have supported a 'minimal state' and the marginalisation of ethnic (Russian) minorities in society. At the other end of the spectrum is Slovenia, which is characterised by neo-corporatist institutions and a relatively generous welfare state. Hungary and other Visegrád states fall in between these two extremes. Their democratic regimes have been politically stable, while their governments have, until the late 2000s at least, offered relatively generous, targeted social protection to workers and vulnerable groups in society, including education, health care, pensions, labour market policies, family and child care, and social housing.[165] According

[163] Bohle and Greskovits, 'Neoliberalism, Embedded Neoliberalism and Neocorporatism', p. 458. Discussed in further detail in Bohle and Greskovits. *Capitalist Diversity on Europe's Periphery*, pp. 162-170.
[164] Bohle and Greskovits, 'The State, Internationalization, and Capitalist Diversty', p. 110.
[165] According to Bohle and Greskovits (here cited in 'Neoliberalism, Embedded Neoliberalism and Neocorporatism', pp. 453-454), Hungary's welfare system, offering universal childcare, disability and early retirement benefit schemes, is 'among the most generous in the region,' although 'its record in institutionalising tripartite relations between labour, capital, and the state has been convincing.' On tripartism in Hungary, see Lajos Héthy, 'Social Dialogue in Hungary: Its Rise and Decline', *South-East European Review of Labour and Social Affairs*, Special Issue: 'The Political, Economic and Social Development of Hungary During the Last Twelve Years', 2001, pp. 55-70 and András Tóth, 'The Failure of Social-Democratic Unionism in Hungary', in *Workers after Workers' States: Labor and Politics in Postcommunist*

to Bohle and Greskovits, this is in large part thanks to the fact that enlightened political elites were:

> aware of the social hardships caused by the collapse [of state socialism] and the market reforms, but *they could not* fall back upon identity politics and disenfranchise large parts of the affected population to muffle protests as the Baltic states did. At the same time, *they shied away* from offering institutionalised voice to unions and the losers of reforms, the way Slovenia did. Rather, *they decided* to offer ad hoc compensation in the form of relatively generous targeted social protection packages in order to overcome opposition to reforms.[166]

This model of 'compensation without institutionalised interest representation', which can be found in all V4 countries, is also similar to the 'dual democratic regimes' found in many Latin American societies.[167]

Problematic Aspects of the Institutionalist Approach to the Transformation

The transformation of CEE and the former Soviet Union has not been characterised by uniformity and the convergence towards an optimal model of capitalism, as initially predicted by neoliberal economists. Rather, as the institutionalist approach demonstrates, the neoliberal approach to the transformation was based on mistaken theoretical assumptions, which were ill-equipped for the promotion of 'sustainable' capitalist development in conditions of 'post-socialism'. Moreover, the approaches discussed above have shed light on the role of past legacies and institutions, in particular the state, in shaping the transformation in the region. By so doing, insitutionalist scholars have provided a powerful criticism of the neoliberal approach to the transformation and the assumption that, no matter when in history or where in social geography, the presence of market institutions automatically translates into economic growth and prosperity. Since the late 1990s, this more cautious approach to the transformation has also been acknowledged

Eastern Europe, edited by Stephen Crowley and David Ost, Lanham, MD: Rowman & Littlefield, 2001, pp. 37-58.

166 Bohle and Greskovits, 'Neoliberalism, Embedded Neoliberalism and Neocorporatism', p. 453 (my emphasis).

167 Ibid, p. 454. The concept of 'dual democratic regimes' was originally developed by Carlos H. Acuña and William C. Smith, 'The Political Economy of Structural Adjustment: the Logic of Support and Opposition to Neoliberal Reform', in *Latin American Political Economy in the Age of Neoliberal Reform. Theoretical and Comparative Perspectives of the 1990s*, edited by Carlos H. Acuña, William C. Smith, and Eduardo A. Gamarra, Coral Gable, FL: University of Miami, 1994, pp. 17-66.

by some of those who had previously been amongst the most ardent supporters of neoliberal 'shock therapy' in the region.[168]

Having said this, the institutionalist approach suffers from two important shortcomings. The first relates to the seldom-acknowledged employment (*pace* Andor) of a similar, static comparative framework, as utilised by many neoliberal economists. Hence, similar to neoliberal economists, scholars associated with the institutionalist approach tend to perceive the societies that existed in Eastern Europe between 1945-1989 as fundamentally *different* from those in the West (although the taxonomies used to describe these societies differ from those used by neoliberals; e.g. 'socialism' in the neoliberal literature, as compared to 'state socialism' in the institutionalist literature). As a result, they end up repeating the same conceptual problems associated with the neoliberal approach described above.

The second main point of criticism refers to the policy prescriptions offered by the institutionalists in order to overcome the problems of neoliberal capitalism. As we have noted above, institutionalists advocate 'gradual' market reforms and a 'return of the state' in economic planning and development. This is underpinned by a theory of the state, which sees it as an independent mediator between competing actors in the economy. However, as Marxist political economists have continuously stressed, under capitalism the primary role of the state is *to guarantee the reproduction of capital within its borders*, rather than to act as an 'honest broker' between capital and labour.[169] As Shields points out in recent critique, this poses a difficult question for institutionalists: could the spectacular growth rates achieved by the Asian 'Tiger economies' in the period between 1970-1990, or, more recently, that of China, could have been achieved under democratic regimes?[170] Moreover, not all states in the international state system have the same power to pursue independent economic policies in the competition for capital accumulation. Hence, while institutionalists frequently compare the CEE economies to China, describing the latter as

---

[168] See for example, Soros, *The Crisis of Global Capitalism* and *id. Open Society: Reforming Global Capitalism*, New York, NY: Public Affairs, 2000; IMF, *Good Governance: the IMF's Role*, Washington, DC: International Monetary Fund, 1997; World Bank, *Transition – The First Ten Years*; and, *inter alia*, the annual *Transition Reports* of the EBRD since 2004.
[169] Fred Block, *Revising State Theory*, Philadelphia, PA: Temple University Press, 1987; Chris Harman, 'The State and Capitalism Today', *International Socialism*, 1991, Vol. 2, No. 51, pp. 3-57. For a summary of Marxist perspectives on the state, see Bill Dunn, *Global Political Economy: A Marxist Critique*, London: Pluto Press, 2009, pp. 306-317.
[170] Shields, *The International Political Economy of Transition,* p. 31.

an example of ‘successful’ transition from central planning to a market economy, this fails to recognise the fact that the former are in a weak, intermediary position compared to more powerful states in the global political economy (such as the United States, Germany, or indeed China). Finally, as we shall demonstrate in further detail in Chapter 5, the neoliberal restructuring of Hungary and other CEE economies has been highly dependent on foreign direct investment from multinational corporations based in more advanced capitalist states, but the CEE economies have been the dependent partner in this relationship. Industrial upgrading based on foreign direct investment is thus not a straightforward component of ‘successful’ transformation, but arguably an essential part of the increasing power of Western-based multinational capital in the region.

‘Against the Current’: Marxist-inspired Approaches of the Transformation

The demise of the Soviet bloc in 1989-1991 has frequently been described as the definite end of the ‘socialist’ experiment in Eastern Europe and elsewhere, and, indeed the terminal point of Marxism, as a method for scientific inquiry into society. However, a number of Marxist-inspired approaches have sought to offer a more critical approach to the transformation in CEE. Here below, we critically review two influential Marxist-inspired approaches to the transformation – world-systems theory and neo-Gramscianism – before presenting the central tenets of an alternative approach, drawing on the insights of state capitalism theory.

World-systems Theory

The first Marxist-inspired approach to the CEE transformations is constituted by world-systems theory, as originally developed by Immanuel Wallerstein,[171] and later elaborated

[171] Immanuel Wallerstein, *The Modern World System: Capitalist Agriculture and the Origins of the European World Economy in the Sixteenth Century,* New York, NY: Academic Press, 1974; *The Modern World System, Vol. II: Mercantilism and the Consolidation of the European World Economy 1600-1750*, New York, NY: Academic Press, 1980; *The Modern World System, Vol. III. The Second Era of Great Expansion of the Capitalist World Economy, 1730-1840s*. San Diego, CA: Academic Press, 1989; and *Historical Capitalism*, London: Verso, [1983]/1996, For an abridged introduction to world-systems theory, see *id*, *World System Analysis. An Introduction*, Durham, NC: Duke University Press, 2006.

by Giovanni Arrighi[172] and Christopher Chase-Dunn,[173] amongst others. Drawing on insights from the French *Annales* School of historiography, associated with Marc Bloch and Fernand Braudel, non-orthodox Marxism, and *dependencia* theory,[174] world-systems theory does indeed challenge some of the central assumptions of orthodox approaches to the transformation.[175] To begin with, world-systems theory insists that the modern world-system needs to be conceptualised as a 'totality', which develops *dialectically* and *historically*, over what Braudel defined as 'the *longue durée*'[176]. The origins of the modern world-system date back to the 'long sixteenth century', when strong states in Northern and Southwestern Europe were able to colonise, and later dominate, through more informal means, societies elsewhere in the world.[177] The modern world-system is conceived as a 'capitalist world-economy', which is hierarchically organised and driven by 'the *endless* accumulation of capital', and comprised by a plurality of institutions, including *markets* for the buying and selling commodities, *firms*, a multiplicity of *states* acting within a hierarchical interstate system, *households*, *classes*, and '*status-groups*'.[178] These different structures are connected together through a hierarchically organised *international division of labour*, in which advanced capitalist states in the 'core' perform high-value added manufacturing, while poor states in the 'periphery' supply primary materials. Between these two extremes we find the countries of the 'semi-periphery', which perform basic, labour-intensive manufacturing, while, at the same time, playing a key, *political* role in the world-system, as potential agents for progressive change and systemic transformation, or,

---

[172] Giovanni Arrighi, *The Long Twentieth Century: Money, Power, and the Origins of our Times*. London: Verso, 1994 and *Adam Smith in Beijing: Lineages of the Twenty-first Century*, London: Verso, 2008.

[173] Christopher Chase-Dunn, *Global Formations. Structures of the World-Economy*, Lanham, MD: Rowman & Littlefield, 1998.

[174] Key works within dependency theory include: Samir Amin, *Accumulation on a world scale: a critique of the theory of underdevelopment*, New York, NY: Monthly Review Press, 1974; Paul Baran, *The Political Economy of Growth*, New York, NY: Monthly Review Press, 1957; Paul Baran and Paul Sweezy, *Monopoly Capital: An Essay on the American Economic and Social Order*, New York, NY: Monthly Review Press, 1966; Felipe H. Cardoso and Enzo Faletto, *Dependency and Development in Latin America*, Berkeley, CA: University of California Press, 1979; Andre Gunder Frank, *Capitalism and Underdevelopment in Latin America*, New York, NY: Monthly Review Press, 1966 and *Dependent Accumulation and Underdevelopment*, New York, NY: Monthly Review Press, 1978.

[175] On the historical origins of world-systems theory, see Wallerstein, *World System Analysis*, pp. 1-22.

[176] Fernand Braudel, *The Mediterranean and the Mediterranean World in the Age of Philip II*, New York, NY: Harper & Row, 1972.

[177] Wallerstein, *The Modern World System*. Over the years, Wallerstein's thesis of the 'origins of capitalism' has been challenged by a number of scholars, including a number of world-system theorists. For example, Frank argues that a global scale world-system, centred around China, has existed for as long as 5,000 years. See Andre Gunder Frank, *ReOrient: The Global Economy in the Asian Age*, Berkeley, CA: University of California Press, 1998.

[178] Wallerstein, *World System Analysis*, p. 24.

conversely, as a force of stabilisation, preventing the system from becoming too polarised.[179]

Although not explicitly identified, the former interpretations draws on classical Marxist analyses of imperialism, as undertaken by Vladimir Lenin, Leon Trotsky, and others, for whom early twentieth century Russia was in a unique position on the 'fringes' of capitalist development – not fully industrialised, yet still considered amongst the European elite.[180] For Lenin and the Bolsheviks then, the imperialist capitalist world system could be overthrown by a socialist revolution in its 'weakest link'; e.g. Tsarist Russia.[181] This optimist view is, however, not shared by most world-system theorists. For example, Wallerstein claims that the semi-periphery essentially represents a safety valve for capitalist development in the world-system, providing capitalists with the ability 'to shift capital from a declining sector to a rising sector', in order to 'profit from the wage-productivity squeeze of the leading sector'.[182] More recently, Chase-Dunn has pointed out that 'some states *are* able to move upward in the core/periphery hierarchy.' However, as he goes on to conclude, 'these cases of upward mobility [are] *exceptions* against the background of the more frequent "development of underdevelopment."'[183]

So where does this leave Hungary and other transformation states in CEE and the former Soviet Union? According to world-systems theorists, the countries of the region constitute a semi-peripheral part of the capitalist world-economy *par excellence* – together with other classical examples, such as Mexico, Argentina, Brazil, and Venezuela in Central and Latin America, or China, Korea, and Vietnam in Southeast Asia.[184] The economic, political, and

---

179 Wallerstein, *World System Analysis*, p. 29. See also Giovanni Arrighi and Jessica Drangel, 'Stratification of the world-economy: an explanation of the semi-peripheral zone', *Review*, 1986, Vol. 10, No. 1, pp. 9-74; Chase-Dunn, *Global Formations*; Frank, *Capitalism and Underdevelopment in Latin America*; Wallerstein, *The Modern World System* and *The Capitalist World Economy*, Cambridge, Cambridge University Press, 1979. For critiques of the concept, see Peter Lange, 'Semiperiphery and core in the European context: reflections on the postwar Italian experience' in *Semiperipheral Development*, edited by Giovanni Arrighi, Beverly Hills, CA: Sage, 1985, pp. 179-214 and Hugo Radice, 'Halfway to paradise? Making sense of the semiperiphery', in *Globalization and the 'New'Semi-Peripheries*, edited by Owen Worth and Phoebe Moore. Basingstoke: Palgrave, 2009.

180 This point is highlighted by Owen Worth in 'Whatever Happened to the Semi-Periphery?', in Worth and Moore, op. cit., p. 15.

181 Vladimir I. Lenin, *Imperialism: The Highest Stage of Capitalism*, London: Junius, [1916]/1996.

182 Wallerstein, *The Capitalist World Economy*, p. 70.

183 Chase-Dunn, op. cit., p. 120 (my emphasis).

184 Arrighi and Drangel, op. cit.; Daniel Chirot, *The Origins of Backwardness in Eastern Europe: Economics and Politics from the Middle Ages until the Early Twentieth Century*, Berkeley, CA: University of California Press, 1989; Péter Szigeti, 'A magyarországi újkapitalizmus természete és helye a világrendszerben', *Eszmélet*, 2010, Vol. 22, No. 88, pp. 63-79; Wallerstein, *The Capitalist World Economy*.

cultural ‘backwardness’ of the region predates its absorption into the broader, Western-dominated world economy.[185] Over the centuries, this backwardness was entrenched through the processes of ‘re-feudalisation’, the reinforcement of a ‘second serfdom’, and unfavourable shifts in world trade routes.[186] For world-systems theorists, the ‘state socialist’ regimes that came to power in Eastern Europe after World War II, when analysed in the context of world history, were part of a wider ‘anti-systemic movement’, which aimed to promote ‘late development’ in the semi-periphery, in opposition to bourgeois conceptions of it and the interests of hegemonic states of the capitalist-world economy.[187] But these achievements were not purely ideological. In a detailed survey, Arrighi showed that, between 1948-1988, the ‘state socialist’ economies *outperformed* many of their ‘capitalist’ competitors in the semi-periphery, including the economies of southern and central Africa, as well as Turkey and Egypt, in GNP per capita terms, while being on par with Latin America excluding Brazil.[188] Yet, despite these ‘achievements’, the ‘state socialist’ development model ultimately failed because of economic, geopolitical, and ideological pressures from the capitalist-world economy.[189]

In Hungary, the conceptual framework of world-systems theory has been influential amongst critics of neoliberal transformation. The most prominent representative of world-systems theory has been Péter Szigeti.[190] Drawing on the works of Wallerstein and Arrighi, he traces the origins of the transformation in CEE to the demise of ‘state socialism’[191] in 1989, when the countries of the region were *formally* restored to their semi-peripheral

---

[185] Chirot, *The Origins of Backwardness*, p. 8. On the cultural backwardness of ‘Eastern Europe’ compared to its ‘Western’ neighbour, see Wolff, *Inventing Eastern Europe*.
[186] Perry Anderson, *Lineages of the Absolutist State*, London: New Left Books, 1974; Chase-Dunn, *Global Formations*; Chirot, op. cit. On the historical ‘development of underdevelopment’ in Hungary, see Iván T. Berend, *Decades of Crisis: Central and Eastern Europe before World War II*, Berkeley, CA: University of California Press, 1998, *History Derailed: Central and Eastern Europe in the Long Nineteenth Century*, Berkeley, CA: University of California Press, 2003, and *Decades of Crisis: Central and Eastern Europe before World War II*, Berkeley, CA: University of California Press, 2009; Zsigmond P. Pach, *Az eredeti tőke-felhalmozás Magyarországon*, Budapest: SZIKRA, 1952; György Ránki and Iván T. Berend, *Hungary: a century of economic development*, New York, NY: Barnes & Noble, 1974, *Underdevelopment and economic growth: studies in Hungarian social and economic history,* Budapest: Akadémiai Kiadó, 1979, and *The European periphery and industrialization, 1780-1914*, New York, NY: Cambridge University Press, 1982.
[187] Szigeti, ‘A magyarországi újkapitalizmus’.
[188] Giovanni Arrighi, ‘World Income Inequalities and the Future of Socialism’, *New Left Review*, 1991, Vol. 1, No. 189, pp. 39-66.
[189] Szigeti, op. cit., p. 74 (emphasis in original).
[190] Szigeti, *Világrendszernézőben: globális ‘szabad verseny’ mint a világkapitalizmus jelenlegi stádiuma*, Budapest: Napvilág Kiadó, 2005 and ’A magyarországi újkapitalizmus’.
[191] On the author’s definition of ‘state socialism’, see Szigeti, 2007, ‘Államszocialista kisérletek – történelmi tanulságok’, in *Államszocializmus: értelmezések, viták, tanulságok*, edited by László Krausz and Péter Szigeti, Budapest: L’Harmattan Kiadó/Eszmélet Alapítvány, 2007, pp. 13-52.

position in the capitalist world-economy. Since then, Szigeti argues, a 'new capitalism' has taken root in Hungary (and elsewhere in the region), characterised by 'extreme openness' to 'foreign' capital, and high dependence on exports to advanced capitalist states in the core of the world-economy (in the case of Hungary, its largest trading partner is Germany).[192] While the transformation has contributed to some technological upgrading and the improvement of work culture, Szigeti argues that it has also comes with disadvantages, in the form of deteriorating terms of trade, exploitation, and the commercialisation of mass culture. This contradiction, which, according to Szigeti, reflects 'the dilemma of openness-closeness' that is a distinct feature of the semi-periphery, is aggravated by 'the arrival of new competitors in global capitalism, who often possess a greater economic strength than our [Hungary's] entire national economy.'[193] Analysing the balance sheet of the regime change in Hungary, Szigeti argues that the socio-economic and political outcomes of the transformation have been far from impressive: *'The performance of this new configuration … is roughly equivalent of the output of the state socialist system, but its distribution of resources and incomes is much more polarised.*'[194] The transformation of class relations *after* 1989 has led to the enrichment of a couple of hundred thousand of domestic 'oligarchs', 'who have managed to catch up with the core, while the number of people living below the poverty line has grown with at least 3.5 times, to one-third of the population. … [Meanwhile] a large, non-integrated underclass has developed, primarily comprised of the Roma, who struggle to survive on continuously reduced welfare provisions.'[195] Although Hungary's 'new capitalism' is blatantly inegalitarian, Szigeti argues that it serves the interest of multinational corporations based in the core, who are able to extract 'superprofits' from their operations in Hungary.[196] In contrast to orthodox accounts, Szigeti argues that the new capitalist regimes that have emerged in CEE are politically *unstable*. Parliamentary democracy in Hungary, he argues, is 'pregnant with tensions', since 'the potential for social conflict outgrows the political

---

192 Szigeti, 'A magyarországi újkapitalizmus', p. 74. .

193 Ibid., p. 74.

194 Ibid., p. 75 (emphasis in original).

195 Ibid., p. 75.

196 Szigeti, *Világrendszernézőben*. The term 'superprofit', also known as 'surplus profit' or 'extra surplus-value' (*extra Mehrwert*) was originally elaborated by Marx in order to describe a situation in which: 1) a technologically advanced firm operates on above-average productivity levels in a competitive market; 2) firms with above-average productivity rates manage to obtain the socially average profit rate, despite general conditions of declining demand; or 3) when a firm holds a monopoly position in a given sector of the economy. See Karl Marx, *Capital. Volume 1*, London: Penguin Classics, pp. 279, 340-341. Szigeti uses the term in a Marxist-Leninist sense, to describe the 'super-exploitation' of workers in Hungary (and elsewhere in CEE) by multinational corporations based in core states in Europe and the United States.

system's … problem-solving abilities.' This, in turn, leads to 'problems of legitimacy', and, provides a fertile ground for the Hungarian far-right to mobilise support for a 'second revolution', as a response to the failures of the regime change. Hence, as the Hungarian example demonstrates, 'the semi-periphery is not a road to paradise'.[197]

Neo-Gramscianism

The second Marxist-inspired approach is neo-Gramscianism, which draws on the work of the Italian revolutionary and political theorist Antonio Gramsci (1891-1937).[198] In scholarly International Relations and International Political Economy this approach is associated with the seminal work of Robert Cox,[199] while contributions from different members of the 'Amsterdam school of International Relations',[200] Stephen Gill,[201] Mark Rupert,[202] Andreas Bieler and Adam David Morton[203], have developed the approach

---

[197] Szigeti, 'A magyarországi újkapitalizmus', pp. 75-76.

[198] Gramsci, *Selections from the Prison Notebooks*, 1977, 1995.

[199] Robert W. Cox, 'Social Forces, States and World Orders: Beyond International Relations Theory', *Millennium: Journal of International Studies*, 1981, Vol. 10, No. 2, pp. 126-155, 'Gramsci, Hegemony and International Relations: An Essay in Method, *Millennium: Journal of International Studies*, 1983, Vol. 12, No. 2, pp. 162-175, *Production, Power and World Order: Social Forces in the Making of History*, New York, NY: Columbia Press, 1987, and 'Global Perestroika', in *The Socialist Register 1992*, edited by Ralph Miliband and Leo Panitch, London: Merlin, 1992, pp. 26-43

[200] Important works produced by scholars from the Amsterdam school include Apeldoorn, *Transnational Capitalism and the Struggle over European Integration*; Kees van der Pijl, *The Making of an Atlantic Ruling Class*, London: Verso, 1984 and *Transnational Classes and International Relations*, London: Routledge, 1998; Henk Overbeek, *Global capitalism and national decline: the Thatcher decade in perspective,* London: Unwin Hyman, 1990 and 'Transnational class formation and concepts of control: towards a genealogy of the Amsterdam project in international political economy', *Journal of International Relations and Development*, 2004, Vol. 7, No. 2, pp. 113-141.

[201] Stephen Gill, *Gramsci, Historical Materialism and International Relations*, Cambridge: Cambridge University Press, 1993, 'Globalisation, Market Civilisation and Disciplinary Neoliberalism', *Millennium: Journal of International Studies*, 1995, Vol. 24, No. 3, pp. 399-423, 'European Governance & New Constitutionalism: EMU & alternatives to disciplinary neo-liberalism in Europe,' *New Political Economy*, 1998, Vol. 3, No. 1, pp. 5-26, and 'Constitutionalising Capital: EMU and Disciplinary Neo-Liberalism', in Andreas Bieler and Adam D. Morton (ed.) *Social Forces in the Making of the New Europe*, Basingstoke: Palgrave, 2001, pp. 47-69.

[202] Mark Rupert, *Producing Hegemony: The Politics of Mass Production and American Global Power*, Cambridge: Cambridge University Press, 1995 and *Ideologies of Globalization: Contending Visions of a New World Order*, London: Routledge, 2000.

[203] Andreas Bieler and Adam D. Morton, 'The Gordian Knot of Agency-Structure in International Relations: A Neo-Gramscian Perspective', *European Journal of Internaional Relations*, 2001, Vol. 7, No.1, pp. 5-35, 'A Critical Theory Route to Hegemony, World Order and Historical Change: Neo-Gramscian Perspectives in International Relations, *Capital & Class*, 2004, Vol. 28, No. 1, pp. 85-113, and *Images of Gramsci: Connections and Contentions in Political Theory and International Relations*, London: Routledge, 2006; Adam D. Morton, 'Historicizing Gramsci: Situating Ideas In and Beyond Their Context', *Review of International Political Economy*, 2003, Vol. 10, No. 1, pp. 118-146, *Unravelling Gramsci: Hegemony and Passive Revolution in the Global Political Economy*, London: Pluto Press, 2007, 'The Continuum of Passive Revolution', *Capital & Class*, 2010, Vol. 32, No. 3, pp. 315-342, and *Revolution and State in Modern Mexico: The Political Economy of Uneven Development,* Lanham, MD: Rowman & Littlefield, 2011.

further. Similar to world-systems theory, these contributions have challenged central assumptions of mainstream International Relations and International Political Economy, while at the same time rejecting 'orthodox Marxism'.[204] What distinguishes this approach from other Marxist approaches, such as world-systems theory, is an interest in *transnational relations*, which are viewed as central to an understanding of the international political economy. A particular affinity is the authors' substitution of the 'state' with the 'state-society complex', which, in the words of Overbeek, represents a 'key point of departure for the re-theorisation of transnational class formation'.[205] From this it follows that, 'politics is primarily about social forces rather than "actors" in their own right.'[206] As a result, 'hegemony' on the international level is seen as being exercised by transnational classes/social forces, not states, as argued by world-systems theory. As Overbeek puts it, 'Hegemony in the global system is … a form of class rule, and not a primarily as a relationship between states.'[207]

By now there is also a growing literature on the post-Soviet states of CEE from the perspective of the neo-Gramscian school, which has arguably 'offer[ed] a significant methodological and substantive reorientation for transitological studies'.[208] Having said this, initial attempts to 'apply' a neo-Gramscian perspective on the transformation in CEE focused primarily on examining the efforts of *transnational* agents, such as the EU or the European Round Table of Industrialists (ERT) to extend their hegemonic projects eastwards.[209] While such studies have provided useful insights on the *coercive* pressures associated with EU membership or foreign direct investment in shaping the transformation, they remain problematic in not adequately *historicising* the social relations of production in CEE or addressing the role of *domestic* class relations and struggles *between* capital and

---

204 For Marxian critiques of neo-Gramscianism, see Peter Burnham, 'Neo-Gramscian Hegemony and the International Order', *Capital & Class*, 1991, No. 45, pp. 73–93; Adrian Budd, 'Gramsci and international relations', *International Socialism*, 2007, No. 114; Peter Thomas, *The Gramscian Moment: Philosophy, Hegemony and Marxism*, Leiden: Brill, 2010.
205 Overbeek, 'Transnational class formation', p. 126.
206 Ibid., p. 126.
207 Ibid., p. 127.
208 Shields, *The International Political Economy of Transition*, p. 31.
209 Dorothee Bohle, 'Erweiterung und Vertiefung der EU: Neoliberale Restrukturierung und Transnationales Kapital', *PROKLA*, 2002, Vol. 32, No. 3, pp. 353-379; Andreas Bieler, 'The Struggle Over EU Enlargement: A Historical Materialist Analysis of European Integration', *Journal of European Public Policy*, 2002, Vol. 9, No. 4, pp. 575-597; Holman, 'Integrating Eastern Europe' and 'The Enlargement of the European Union Towards Central and Eastern Europe: the Role of Supranational and Transnational Actors', in *Social Forces in the Making of the New Europe. The restructuring of European Social Relations in the Global Political Economy*, edited by Andreas Bieler and Adam David Morton, London: Palgrave, 2001, pp. 161-184.

labour, as well as different 'fractions of capital'[210] emerging *within* the region after the demise 'actually existing socialism'.[211] However, since the neo-Gramscian approach has not been applied to study the transformation in Hungary, we shall not analyse it in further detail here.

Towards an Alternative? The Theory of State Capitalism

Having said this, I argue that there is one Marxist account that might be helpful to overcome the above-listed shortcomings. That is the theory of 'state capitalism', which has been employed in Marxist debates in a variety of different ways over the years.[212] The way we use the term in this thesis draws upon the works of a number of revolutionary Marxists, such as C.L.R. James, Rada Dunayevskaya, and Tony Cliff, who became leading figures in the various Trotskyist movements that developed in opposition to the Fourth International after World War II.[213] More recently, their ideas have been developed by for example Chris Harman and Mike Haynes.[214]

---

[210] Simon Clarke, 'Capital, Fractions of Capital and the State: 'Neo-Marxist' Analysis of the South African State', *Capital & Class*, 1978, Vol. 2, No. 2, pp. 32-77; Huw Macartney, 'Variegated Neo-liberalism: Transnationally Oriented Fractions of Capital in EU Financial Market Integration', *Review of International Studies*, 2009, Vol. 35, No. 2, pp. 451-480; Nicos Poulantzas, 'The Problem of the Capitalist State', in *The Poulantzas Reader*, edited by James Martin, London: Verso, [1969]/2008, pp. 172-185.

[211] Here the notable exception is the work of Stuart Shields,,which has provided interesting insights on how transnational social forces and processes in connection with domestic agents have sought to promote neoliberalism in the region (focusing in particular on the case of Poland). See Stuart Shields, 'The "Charge of the Right Brigade"', 'Global Restructuring and the Polish State: Transition, Transformation, or Trans-nationalization?', *Review of International Political Economy*, 2004, Vol. 11, No. 1, pp. 132-154, 'Historicizing Transition: The Polish Political Economy in a Period of Global Structural Change – Eastern Europe's Passive Revolution?', *International Politics*, 2006, Vol. 43, No. 4, pp. 474-499, 'Double the Shock, with Half the Therapy: Transnational Capital, Class Configuration and the Social Implications of Poland's Ongoing Transition to a Market Economy', *Competition and Change*, 2007, Vol. 11, No. 2, pp. 153-176, 'How the East was Won: Globalisation, Transnational Social Forces and Poland's Transition to a Market Economy', *Global Society*, 2008, Vol. 22, No. 4, pp. 445-468, and *The International Political Economy of Transition*, This is also true to an extent to the work of Drahokoupil, although his approach draws heavily on new institutionalism described above. See Jan Drahokoupil, *Globalization and the State in Central and Eastern Europe: The Politics of Foreign Direct Investment*, London: Routledge, 2009.

[212] For an excellent historical overview of the term and its usage, see Macel van der Linden, *Western Marxism and the Soviet Union: A Survey of Critical Theories and Debates since 1917*, Chicago, IL: Haymarket Books, 2009. See also Mike Haynes, 'Marxism and the Russian Question in the Wake of the Soviet Collapse', *Historical Materialism*, 2002, Vol. 10, No. 4, pp. 317-362; Stephen A. Resnick and Richard D. Wolff, *Class Theory and History: Capitalism and Communism in the USSR,* London: Routledge, 2002, pp. 104-132.

[213] Tony Cliff, *State Capitalism in Russia*, London: Bookmarks, [1948]/1996; Raya Dunayevskaya, *Russia as State Capitalism,* Detroit, MI: News & Letters, 1973 and *The Marxist-Humanist Theory of State-Capitalism: Selected Writings,* Chicago, IL: News & Letters, 1992; C.L.R. James, *State Capitalism and World Revolution*, Detroit, MI: Facing Reality, 1969.

[214] Harman, *Class Struggles in Eastern Europe* and 'The Storm Breaks'; Mike Haynes, 'Class and Crisis: the Transition in Eastern Europe', *International Socialism*, 1992, No. 54, pp. 45-104, 'Marxism and the Russian Question', and 'Rejoinder to Chattopadyay', *Historical Materialism*, 2004, Vol. 12, No. 2, pp. 129-148.

As with most advances in Marxist thinking, the genesis of state capitalism theory was a politically strategic innovation: a means to develop a revolutionary socialist praxis in the specific context of the ideological rigidity that characterised world politics after World War II. Similar to other revolutionary Marxists at the time, the crucial question facing James, Dunayevskaya, and Cliff was whether the Soviet Union and its satellite states in Eastern Europe represented a genuine 'socialist' alternative to the 'capitalist' states in the West. In the specific case of the Eastern European People's Republics after 1947, this meant, for example, asking whether 'socialism' could be imposed by diktat from Moscow, or whether it necessitated the working classes of those countries taking control over the means of production and the state?

The dominant position in this debate was taken up by the Communist Party of the Soviet Union (CPSU), led by Joseph Stalin, and diligently supported by its sister parties in Eastern Europe, for whom the Soviet-style societies were indeed 'socialist'. At the time, the overwhelming majority of all Marxists in the West also shared this perspective. (As we have noted above, this remains the dominant view within the transformatology literature as well.) As Alex Callinicos has noted, this view was based on what Marx had described as a 'metaphysical or juridical illusion', which gives superiority to *legal* forms of ownership rather than *effective* ownership of the means of production.[215] Following this logic, the Soviet-style societies were necessarily 'socialist' (albeit with important 'distortions'), since the state controlled the means of production and the workers, through the vanguard party, controlled the state. Thus, the task of the proletariat in the West was to ally themselves with the workers' states in the Soviet bloc in their struggle against imperialism and international capitalism.

In contrast to this, James, Dunayevskaya, Cliff, and their followers argued that the Soviet Union and its satellite states in Eastern Europe were 'state capitalist' societies. Broadly speaking, their argument can be summarised as follows. To begin with, they emphasised the central role of *accumulation* in the development of Soviet-style societies. According to Marx, the distinctive feature of capitalist production, which distinguishes it from previous class societies, is the compulsive character assumed by accumulation. As he explains in

[215] Alex Callinicos, *The Revolutionary Ideas of Karl Marx*, London: Bookmarks, 2004, p. 181.

volume 1 of *Capital*, the endless accumulation of capital is the consequence of the *competitive* nature of capitalism:

> The development of capitalist production makes it constantly necessary to keep increasing the amount of capital laid out in a given industrial undertaking, and competition makes the immanent laws of capitalist production to be felt by each individual capitalist as external, coercive laws. *It compels him to keep constantly expanding his capital, in order to preserver it, but extend it he cannot except by means of progressive accumulation*. ...
>
> Therefore save, save – i.e. reconvert the greatest possible portion of surplus value or surplus product into capital! Accumulation for accumulation's sake, production for production's sake![216]

Second, in contrast to the 'methodological nationalism' adhered to by orthodox Marxists, state capitalism theory argues that the development of Soviet-style societies needs to be understood *in relation* to the wider capitalist world system around them. However, capitalism had undoubtedly undergone profound changes since the time of Marx. On the one hand, the expansion of the world market meant that capitalism has become a truly *global* system operating under the law of value. On the other hand, however, the development of capitalism in the early 20th century went hand in hand with increasing *state intervention* in the economy. As leading Marxist thinkers (e.g. Nikolai Bukharin, Vladimir Lenin, and others) noted at the time, competition between enterprises in the domestic economy was increasingly regulated by state intervention, which meant that the rivalry of competing capitals increasingly shifted to a 'higher level', to competition on the world market. As World War I and World War II brutally demonstrated, this rivalry could take the shape of military conflict between capitalist states.[217]

For the proponents of state capitalism theory, compulsive accumulation of capital and systematic competition were also conspicuous features of Soviet-style economies. According to Cliff, its origins dated back to the late 1920s, when they arose as an attempt by new Soviet leadership, following Stalin's brutal rise to power, to salvage the increasingly isolated Soviet Union, following the defeats of the socialist revolutions in Germany (1918-1923) and Hungary (1919), and counter the rising threat of foreign

[216] Marx, *Capital. Volume 1*, pp. 739, 742.
[217] Nikolai Bukharin, *Imperialism and world economy*, New York, NY: H. Fertig, 1966; Lenin, *Imperialism*.

military intervention.[218] Thus, the new regime in Moscow increasingly came to prioritise Soviet 'national interests' over the promotion of international socialist revolution. This approach became legitimised by the doctrine of 'socialism in one country', originally put forward by Stalin in 1924, developed by Bukharin in 1925, and elevated to state policy by Stalin in 1926.[219] However, in order to counter the threat of foreign invasion, the Soviet Union needed to have access to the latest weapons, which could only be produced by an advanced industrial economy. But the resources necessary to industrialise the country could only be obtained from the 'surplus labour' of workers and peasants. Thus, Stalin elevated the Soviet economy onto a new course of 'forced industrialisation'. As famously stipulated by the First Five-Year Plan, introduced in 1929, the central aim of the Soviet Union now became to 'catch up and overtake' the advanced capitalist states in the West in a period of ten years. As we shall see in Chapter 3, similarly ambitious economic programmes were introduced in Hungary and other Soviet satellite states in Eastern Europe following their incorporation into the Soviet 'sphere of interest' after the onset of the Cold War.

In order to sustain the industrialisation drive, land was 'collectivised', in the form of *kolkhozes* and *sovkhozes*, and placed under the control of the state. It has been estimated that tens of millions of peasants died in the process, while those that resisted forced collectivisation were denounced as *kulaks*, enemies of the proletariat, and sent to work in labour camps in Siberia. However, this brutal policy provided the regime with the grain necessary to feed the towns, and to sell on international markets, where it could earn the foreign exchange necessary to buy advanced Western machinery and equipment. At the same time, an enormous range of heavy industries was built from nothing. As a result of forced collectivisation, peasants were driven from their land and sucked into the new factories, where their labour power contributed to the industrialisation drive.

---

[218] Cliff, *State Capitalism in Russia*, pp. 23-105. It should be pointed out that the Bolshevik leadership had already steps towards this direction under Lenin, with the introduction of the New Economic Policy (NEP) in 1921. In order to reconstruct the war-torn Soviet economy the NEP re-established market relations in the countryside and ended the policy of forced grain requisition from the peasantry, revoked the policy of nationalisation, pursued under the period of 'War Communism' (1918-1921), and allowed private enterprise on a limited scale (although the state would continue to own the 'commanding heights' of the economy, including banks, foreign trade, and large industries), while declaring a period of 'peaceful co-existence' between capitalist states and Soviet Russia. While Lenin and the Bolshevik leadership admitted that the NEP was a strategic retreat from 'socialism', they argued that the measures were temporary, though they disagreed on the duration of their implementation.

[219] Josef Stalin, 'Concerning Questions of Leninism', 1926. Available on: http://www.marxists.org/reference/archive/stalin/works/1926/01/25.htm (last accessed on: 23 January 2014).

The above developments bear a striking similarity to the processes that Marx had famously associated with the ‘primitive accumulation’ of capital in Western Europe in volume 1 of *Capital*, and which relied on the massive use of the coercive powers of the state – to drive peasants from the land and expropriate their property, discipline labour into working longer hours and thus produce ‘surplus value’, conquer, enslave, and rob the indigenous peoples in the so-called ‘colonies’ of their wealth, while ensuring that unemployed ‘vagabonds’ closer to home were not threatening society.[220] ‘These methods’, Marx went on to note, ‘all employ the power of the state, the concentrated and organized force of society, to hasten, as in a hothouse, the process of transformation of the feudal mode of production into the capitalist mode, and to shorten the transition.’[221] However, while the brutal process of ‘primitive accumulation’ took the bourgeoisie in Western Europe centuries to be achieved, it was achieved in a couple of decades in Stalin’s Russia, and resulted in millions of deaths. Yet, the outcome was the same: producers were separated from their means of production and forced to sell their labour power in order to survive.

Third, and finally, in contrast to all of the other approaches to the transformation described above, state capitalism theory argues that the Soviet-bloc regimes were not ‘socialist’ states, in which the working class held political power. Rather, compulsive accumulation and competition also had a profound impact on the social relations of production and institutions existent in Soviet-style societies. As Marx and Engels had already pointed out in *The Communist Manifesto*:

> Constant revolutionizing of production, uninterrupted disturbance of all social conditions, everlasting uncertainty and agitation distinguish the bourgeois epoch from all earlier ones. All fixed, fast-frozen relations relationships, with their train of ancient and venerable prejudices and opinions are swept away, all new-formed ones become antiquated before they can ossify. *All that is solid melts into air, all that is holy is profaned, and man is at last compelled to face with sober senses, his real conditions of life, and his relations with his kind.*[222]

Similarly, although the Soviet bloc regimes *formally* described themselves as ‘socialist’ states, the combined pressures of economic and geopolitical competition with the West

[220] Marx, *Capital. Volume 1*, pp. 873-876.
[221] Ibid., pp. 915-916.
[222] Karl Marx, *Capital, Volume 2*, London: Penguin Classics, 1992, p. 6 (my emphasis).

meant that a distinct ruling class *continued* to exist in these societies. The outcome of this was that the ruling bureaucracy within the Soviet regimes (the *nomenklatura*) was, in the famous formulation of Marx, just as much 'personifications of accumulation',[223] as their 'capitalist' counterparts on the other side of the Iron Curtain. 'They were,' as Harman puts it, 'members of a capitalist class, even if a it was a class which *collectively* rather than individually carried through exploitation and accumulation.'[224] This, in turn, meant that those at the top of state capitalist economies were exposed to similar pressures as their counterparts in the West. As Harman points out,

> those who control the state and industry [the bureaucracy] have *continually* to worry about how costs of production inside the country compare with the average costs in the rest of the world: that is, they have to hold down wages, keep up continual pressure to force speed up on workers and aim at levels of investment that will enable the national economy to match the effort of economies elsewhere in the world. In other words, although individual enterprises may not be directly involved in competition with other enterprises, the national economy as a whole is.[225]

For the purposes of this thesis, I believe that the theory of state capitalism can be very useful for: a) explaining the contradictory nature of the system that was established in Hungary and Eastern European societies from 1947 and onwards and its initial successes; b) providing an explanation of its gradual decline, from the mid-1960s and onwards, and ultimate demise in 1989-1991; and c) enabling us to break with the 'methodological nationalism' that permeates much of the literature on the transformation to this day and analyse the Soviet-style societies as part of an interconnected capitalist world system, while simultaneously helping us to identify the potential *agents* of neoliberalism *within* Soviet-style societies: those sections of the *nomenklatura* that would benefit from a switch from a state-led capitalism to a more free-market capitalism.[226] Having said this, there are important limitations to state capitalism theory. One important issue, which remains undertheorised within state capitalism theory are the *concrete* methods with which neoliberal ideas gained ascendancy among the leaders of the Soviet bloc in the 1980s. Another important question, which we believe that state capitalism theory *by itself* is not able to account for, is the contradictory and variegated development of the capitalist

[223] Karl Marx, *Capital. Volume 3*, London: Penguin Classics, 1991, p. 958.
[224] Harman, *Zombie Capitalism*, p. 118.
[225] Harman, 'The Storm Breaks', p. 35 (my emphasis).
[226] Harman, 'The Storm Breaks'; Haynes, 'Marxism and the Russian Question'.

regimes in the region *after* 1989.[227] In order to explain these processes, as they relate to Hungary, we will therefore in the following chapters draw on a number of other concepts in Marxist political economy, including 'concentration' and 'centralisation', 'crisis', and 'uneven and combined development'.

Conclusion

In this chapter we have engaged with different theoretical approaches to the 'double transformation' in CEE and the former Soviet Union. As we have seen, *both* orthodox accounts of the transformation – which we identified with neoliberalism and institutionalism – have depicted the societies in 'East' and 'West' as two separate systems, guided by fundamentally different logics. The deepening socio-economic and politico-ideological crisis of the Soviet-style societies from the 1970s and onwards is thus considered as *endogenous* in nature. They were rooted in the *inherent* shortcomings of an economic system ('socialism'), which Kornai describes as being characterised by 'incoherence, internal contradictions, and lack of stability.'[228] The origins of the transformation are here conceived as the result of the socialist states' imperfect modernisation and failure to adapt themselves to liberal-capitalist societies. The terminal crisis of the Eastern bloc is thus ultimately perceived as *external* to capitalism. A simple axiomatic message follows from this claim: the downfall of the Eastern bloc represented 'the failure of an entire system' ('socialism'), and he ultimate proof of the market's superiority over central planning.

Although these approaches remain dominant within mainstream academic and policymaking circles, we have identified a number of shortcomings. Firstly, they tend to analyse the Soviet-style societies in *isolation* from broader dynamics in the world economy. As a result, they tend to ignore or downplay the many *similarities* that existed between 'East' and 'West' during the Cold War. As a result, they either fail to recognise or under-theorise how it was that many of the problems facing the Soviet-style economies in the East from the mid-1970s and onwards (crisis of capital accumulation, overproduction,

[227] This can in part be explained by the fact that state capitalism was developed to understand a particular phase of capitalist development, broadly covering the period from the late 19th century up until the late 20th century.
[228] Kornai, *The Socialist System*.

debt, budget imbalances, etc.) appeared in the Western 'varieties of capitalism' at roughly the same time. Secondly, the above approaches have, by and large, failed to provide a convincing account of why Eastern European reformers in the late 1980s and early 1990s preferred to turn to neoliberalism, rather than let's say, some 'Third Way' or 'market socialist' alternative? After all, *dirigiste* capitalist regimes in continental Europe (France, Germany, Sweden) and Southeast Asia (South Korea, Japan) had been able to produce robust economic growth, while maintaining corporatist relations between capital and labour. Similarly, governments in Eastern Europe could have built on a strong tradition of market reformist thinking, which had inspired attempts to introduce market reforms 'from above' since the mid-1960s. Moreover, neoliberal economic policies do not necessarily fit easily with the social bases and intellectual traditions of the political parties that have been vying for power since the regime change, meaning that, once in office, any government would have to have been willing to implement neoliberal reforms against the interests of its own electorate. Thirdly, as a result of the above, they have tended to account for the transition as an *exogenously* driven process, thus downplaying the role of *endogenous* forces and processes. Arguably, many of the problems indicated above, are, by and large, also true for more critical approaches to the transformation, such as world-systems theory and neo-Gramscianism (*pace* Shields), although they do emphasise the *coercive* pressures behind the transformation.

We propose that there is one Marxist account of the Soviet-style societies that might be helpful to overcome these shortcomings. That is the theory of 'state capitalism' – a theory originally developed by German Social Democrats (SPD) to explain the character of the increasingly militarised German economy in the late 19th and early 20th century, and which has later been used by Marxists to describe developments in Soviet Russia, Eastern Europe, China, and various 'Third World' countries. Drawing on Marx's understanding of the capitalist mode of production, the theory of state capitalism emphasises the *similarities* between 'socialist' and 'capitalist' economies. Hence, although the Soviet bloc regimes referred to themselves as 'socialist', these societies were actually characterised by the persistence of capitalist features: the separation of the means of production from the producers, wage labour and its 'subsumption' to capital, exploitation, hierarchic division of labour, money economy, rent, brutal repression of working class resistance (e.g. Hungary 1956, Czechoslovakia 1968, and Poland 1980-1981), the feverish drive to accumulate capital – an imperative decreed by economic and geopolitical competition with the 'West'.

For the purposes of this thesis, it means that rather than operating according to a different logic, the Soviet-style societies were exposed to *similar* systemic pressures to their ‘capitalist’ counterparts in the West. In the following two chapters we seek to demonstrate how these pressures shaped economic policy and power relations in nominally ‘socialist’ Hungary, and, as the crisis of capital accumulation deepened in the late 1970s and early 1980s, opened up a space in which ‘proto-neoliberal’ ideas could be formulated and promoted by domestic social forces.

Hungary and the Capitalist World Economy, 1945-1989

Introduction

The last three decades have seen the ascendancy of neoliberal ideology and practice across the world. Whilst the geographical spread of neoliberalism has been highly variegated, nowhere did it sweep aside competing paradigms so quickly and radically as in the former state capitalist economies of CEE. As one of the frontrunners of the 'transition' to the market in the region, Hungary embraced neoliberal policies of accumulation in the early 1990s. Other countries in the region soon followed suit, and, no matter whether their reforms were located on the more radical or more gradual end of the reform spectrum, altogether the CEE transformations constituted, what Peter Murrell has referred to as, 'the most dramatic episode of liberalization in economic history.'[229]

Yet, arguably one of the most puzzling questions of Hungary's 'double transformation' is *why* policymakers in Budapest in the late 1980s and early 1990s decided to abandon any experiments with 'market socialism' or a 'Third Way', favouring neoliberal restructuring instead? After all, governments in Budapest could have built on a strong tradition of reformist thinking, which was almost unique to the region (apart from the notable exceptions of Poland and Yugoslavia). As scholars have pointed out, attempts to create 'market socialism' had inspired the introduction of successive market reforms, especially since the launch of the NEM in 1968, and contributed to Hungary's infamous epithet amongst commentators during the Cold War of being 'the happiest barrack in the East'. Moreover, neoliberal economic policies do not necessarily fit easily with the social bases and intellectual traditions of the political parties that have been vying for power since the

[229] Murrell, 'How Far has the Transition Progressed?', p. 31.

regime change, meaning that, once in office, any government would have to have been willing to implement neoliberal reforms against the interests of its own electorate. Finally, while political parties have often voiced concern about the negative socio-economic impact of neoliberal reforms when in opposition, they have remained firmly committed to them once in government.

In order to understand this ideological *volte face*, the shift from a belief in the efficacy of the state to that of the market, I argue for a Marxist account of the 'double transformation', which draws on the insights of state capitalism theory. My aim in this chapter is to deploy this approach by tracing the historico-material and politico-ideological origins of neoliberalism in Hungary within a longer-term framework. It attempts to historicise the process of state and class (re-)formation in Hungary, and clearly a full historical account is beyond its scope.

In the next section, I set the stage by providing a broad overview of the specific context under which state capitalism emerged in Hungary and elsewhere in Eastern Europe in the wake of World War II. In the third section, I analyse the economic reforms introduced by the Kádár regime in the late 1960s, which attempted to solve the problems of the Hungarian economy through the introduction market reforms and gradual (re-)integration with the capitalist world economy through foreign trade. This, in turn, contributes to the analysis in the fourth section, which looks at Hungary's gradual 'transition' from the late 1970s and onwards, as reform-minded 'communists' attempted to resolve the deepening economic and political crisis of the Hungarian state and reorient it along neoliberal lines.

Hungary and the World Economy, From 1945 to the Late 1950s

The Origins of State Capitalism in Hungary

Hungary emerged from the destruction of World War II with many of the characteristics of a 'backward' country on the semi-periphery of the capitalist world economy. Under pressure from Nazi Germany and domestic social forces, including wide layers of the Hungarian bourgeoisie, key members of the military command,[230] and the increasingly powerful fascist Arrow Cross Party (*Nyilaskeresztes Párt*), Hungary, under the leadership of Admiral Miklós Horthy,[231] participated on the side of the Axis Powers in the war in the hope that an ultimate German victory would enable the country to regain territories lost following the 1920 Peace Treaty of Trianon.[232] However, the war turned out to be a disaster and the country suffered enormous human and material devastation. According to conservative estimates by the renowned Hungarian historian Ignác Romsics, around 900,000 Hungarians (6.2 percent) out of a population of 14.5 million died in the carnages of the war, including some 350,000 soldiers, as well as around 500,000 Hungarian Jews (approximately two-thirds of the total Jewish population) and between 10,000 and 50,000 Hungarian Roma. As Romsics points out, only Poland (15 percent) and the Soviet Union (8.4 percent) suffered markedly higher losses; Germany's losses were roughly the same (6.4 percent), while French losses were put at 1.4 percent, and British and Italian losses amounted to 0.9 percent of the population. In addition, as many as 600,000 Hungarians – most of them soldiers, but also between 100,000-120,000 civilians – were displaced or fell

[230] For example, in a memorandum to Horthy in the sumer of 1941, the Chief of the General Staff General Henrik Werth, argued in favour of Hungary's entrance into the war on the grounds that by following a policy of 'loyalty to the Axis … we shall certainly regain the entire territory of historical Hungary'. Werth, here cited in Loránd Dombrády, *Hadsereg és politika Magyarországon 1938-1941*, Budapest: Kossuth Könyvkiadó, 1986, p. 226.

[231] Count Miklós Horthy of Nagybánya (1868-1957*)* was a conservative politican and Commander in Chief of the Austro-Hungarian Navy during World War I. After having led the counter-revolutionary army to victory in 1919, he was declared Regent and Head of State of the Kingdom of Hungary. Under his rule, Hungary entered World War II on the side of the Axis powers. In 1944, he made a desperate attempt to withdraw from the war, but failed; Nazi Germany occupied Hungary and Horthy was forced to resign. On Horthy's Hungary, see Romsics, *Hungary in the Twentieth Century*, pp. 127-216

[232] The Peace Treaty of Trianon was the peace agreement signed between Hungary and the Entente powers on 4 June 1920 to settle the terms for the end of World War I. As a result of the treaty, Hungary's territory was reduced to roughly one-third of its pre-World War I size (from 282,000 to 93,000 km^2), while its population decreased from 18.2 million to 7.9 million (43 percent of its pre-World War I figure). The treaty left more than 3.2 million ethnic Hungarians outside the borders of the new Hungarian state, out of whom 1.6 million were located in Transylvania, which was awarded to Romania, around 1 million in Czechoslovakia, and almost 500,000 in Yugoslavia, which had constituted much of Hungary's 'natural' economic hinterland. In addition, the treaty placed restrictions on military forces, shipping, and aviation, and forced Hungary to pay reparations to the Entente powers. The treaty caused mass furore in Hungary – a resentment that was kept alive by the revisionist foreign and cultural policies of the Horthy regime during the inter-war years. For a brief overview of the Trianon Treaty, see Romsics, op. cit., pp. 117-125. For the impact of the Trianon Treaty on Hungarian politics in the inter-war years, see Steven B. Várdy, 'The Impact of Trianon upon the Hungarian Mind: Irredentism and Hungary's Path to War', in *Hungary in the Age of Total War, 1938-1948*, edited by Nándor F. Dreisziger, Boulder, CO: Social Science Monographs, 1998, pp. 27-48.

into Soviet captivity, as a result of the war.[233] As for those that had survived the horrors of the war, many faced starvation, freezing, and a lack of housing.[234]

The war also brought enormous damage to the Hungarian economy, as much fixed capital was destroyed altogether or severely damaged. It is estimated by historians that, 40 percent of Hungary's national wealth, including 54 percent of its industrial plants, 40 percent of railway tracks, more than two-thirds of all locomotives, and between 44 and 80 percent of all livestock, was destroyed or hauled away as a result of the war.[235] In addition, retreating German troops destroyed all major bridges across the Danube and Tisza rivers, thus bringing Hungary's communication system to a point of 'near-paralysis'.[236] The combined damages of the war were reflected in national income. Tentative estimates of national income show steep falls between 1938-1946, in real terms, ranging from 50 percent in Yugoslavia and Poland, 40 percent in Hungary, and 25 percent in Czechoslovakia. These figures should be compared with declines of between 10 and 20 percent for Belgium, France, and the Netherlands. The level of industrial production was in many cases even lower; in the case of Hungary it barely reached 30 percent of its pre-war level.[237] As if this was not bad enough, Hungary's economic plight was made worse by the policies of the victorious powers. Reflecting the competitive nature of the capitalist world system, the 1947 Paris Peace Treaty demanded those countries where the old ruling class had sided with Nazi Germany to pay substantial war reparations to the victorious Allied States. Hungary was compelled to pay war reparations of US$ 200 million, at 1938 prices, to the Soviet Union, US$ 70 million to Yugoslavia, and US$ 30 million to Czechoslovakia, as well as to support Soviet garrisons on its territory.[238] According to estimates by the MNB in 1946, the cost of reparations amounted to between 19 and 22 percent of the annual

---

[233] Romsics, *Hungary in the Twentieth Century*, p. 216.
[234] To put the situation in Hungary in international context: compared to the League of Nations' recommendations of a 'normal intake' of 3,000 calories per day for a healthy adult person, Hungarian statistics in 1945-1946 estimated the average intake per person in the country at around 1,700-1,800 calories per day. However, according to Romsics (op. cit., p. 246), not even these bleak figures provide an accurate description of the suffering of many Hungarians in urban centres, who 'had to struggle on the brink of death from starvation'.
[235] Iván Pető and Sándor Szakács, *A hazai gazdaság négy évtizedének története, 1945-1985*, Budapest: Közgazdasági és Jogi Könyvkiadó, 1985, p. 19; Romsics, op. cit., p. 216; Swain, *Hungary: The Rise and Fall of Feasible Socialism*, p. 35.
[236] Romsics, op. cit., p. 245.
[237] Aldcroft and Morewood, *Economic Change in Eastern Europe since 1918*, p. 91-94; Romsics, op. cit., p. 245.
[238] Berend and Ránki, *The Hungarian Economy in the Twentieth Century*, p. 180.

national income.[239] In light of the above, the task of rebuilding post-World War II Hungary must have appeared as truly daunting for policymakers in Budapest.

The establishment of a pro-Soviet People's Republic in Hungary and elsewhere in Eastern Europe after 1945 was, however, neither as swift, nor as unproblematic, as has generally been assumed in the mainstream literature.[240] Although the *idea* of 'socialism' resonated with the demands of large sections of the population in the region, who were tired by the unprecedented scale of economic and social dislocation brought upon them by World War II and perceived 'socialism' as a means to overcome centuries of injustices by the traditional ruling classes, the actual *realisation* of 'socialism' proved to be much more complicated and was only possible as a result of intensifying geopolitical and economic competition between the 'capitalist' West and the 'communist' East following the onset of the Cold War.[241] In the case of Hungary, this was due to a combination of initial Soviet desires to maintain amicable relations with Western powers, as well as the general weakness of the Hungarian Left.[242] For example, compared to Czechoslovakia, Poland and Yugoslavia, where local Communist parties enjoyed genuine mass support thanks to their participation in the anti-fascist resistance movement, the Hungarian Communist Party[243] (*Magyar Kommunista Párt,* MKP) was, as Swain and Swain suggest, 'weak, and occasionally needed the support of Stalin to retain even a coalition stake in the government of post-war Hungary.'[244] The weakness of the MKP became apparent following the November 1945 general elections, in which the conservative Independent Smallholders' Party (*Független Kisgazda Párt,* FKGP) won a landslide victory, receiving 57 percent of the votes. The MKP only arrived in third place, behind the Social Democratic Party (*Szociáldemokrata Párt*, SZDP), with 16.9 percent of the votes, and were only included in

---

[239] Here cited in László G. Borhi, 'The Merchants of the Kremlin: The Economic Roots of Soviet Expansion in Hungary', Working Paper No. 28, Washington, DC: Woodrow Wilson Center for International Scholars, 2000, p. 12.
[240] Archie Brown, *The Rise and Fall of Communism,* London: The Bodley Head, 2009; Zbigniew Brzezinski, *The Grand Failure: The Birth and Death Of Communism in the Twentieth Century*, London: Macdonald, 1990; Hugh Seton-Watson, *The East European Revolution*, Boulder, CO: Westview Press, 1985.
[241] Pittaway, *Eastern Europe, 1939-2000*, pp. 1-33; Swain and Swain, *Eastern Europe since 1945*, pp. 33-55; Tamás, 'Counter-revolution against a counter-revolution'.
[242] Swain and Swain, op. cit., pp. 49-50.
[243] The MKP was founded on 24 November 1918 by a small group of Hungarian Bolsheviks, led by Béla Kun, the leader of the brief Hungarian Soviet Republic. Following the fall of the Hungarian Soviet Republic in 1919, the party was banned and many of its leaders were either executed or exiled. The party was refounded in 1945 under the leadership of Mátyás Rákosi.
[244] Swain and Swain, op. cit., p. 50.

Zoltán Tildy's popular front government following pressure from the Soviet Union.[245] The result was a disappointment to the MKP leadership and thwarted its hopes of seizing power of the state peacefully, through parliamentary elections. Instead, it was forced onto the defensive until 1947, as 'the possibility always existed of the smallholders and the socialists reforming their 1942 alliance to the exclusion of the communists.'[246]

In the end, it was only by building an alliance with the social democrats, gaining control of the trade unions, and by using Soviet support in order to maintain key positions in the popular front government that the MKP managed to recover the situation, mobilising its supporters and using its control over the security services to gradually wrest state power out of the hands of the FKGP in 1946 and 1947.[247] The consolidation of the MKP's power over the popular front government was achieved after the semi-rigged elections in August 1947, in which the Communists emerged as the largest party in parliament, although with only 22.2 percent of the vote, compared with 16.4 percent for the Democratic People's Party (*Demokrata Néppárt*, DNP), 15.4 percent for the FKGP, 14.9 percent for the SZDP, 13.4 percent for the National Independence Party (*Nemzeti Függetlenségi Párt*, NFP) and 8.4 percent for the National Peasant Party (*Nemzeti Parasztpárt*, NPP).[248] In June 1948, the final nail in the coffin was placed in Hungary's barely born democracy following the liquidation of the non-socialist opposition and the enforced merger of the MKP and the SZDP to form the Hungarian Workers' Party (*Magyar Dolgozók Pártja*, MDP). The new People's Republic of Hungary (*Magyar Népköztársaság*) established on 18 August 1949, was thus effectively a one-party dictatorship with Mátyás Rákosi,[249] who proudly described himself as 'Stalin's best Hungarian disciple',[250] as its autocratic leader. According to the 1949 Hungarian Constitution, the new state represented 'the realisation of a close alliance between workers and working peasants, led by the working class', and its goal was the 'construction of socialism' in Hungary, to which end 'most of the means of

[245] Romsics, *Hungary in the Twentieth Century*, p. 235.
[246] Swain and Swain, *Eastern Europe since 1945*, p. 51.
[247] Mária Palasik, *Chess Game for Democracy: Hungary Between East and West, 1944-1947*, Montreal: McGill-Queen's Press, 2011, pp. 101-135.
[248] Romsics, op. cit., p. 235; Swain, *Hungary: The Rise and Fall of Feasible Socialism*, p. 37.
[249] Mátyás Rákosi (1892-1971) was the leader of the MKP and Deputy Prime Minister of Hungary between 1945-1949, when he became the country's *de facto* leader between until 1956. Dubbed the 'bald murderer' by his opponents, Rákosi was probably as close to being universally despised as a politician can get. Rákosi went about introducing 'the dictatorship of the proletariat' in Hungary with uncompromising brutality – intimidating, imprisoning, torturing and killing real and imaginary enemies alike in Stalin-inspired political purges.
[250] Romsics, op. cit., p. 272; Péter F. Sugar et al., *A History of Hungary*, Bloomington, IN: Indiana University Press 1994, pp. 375-377.

production [would be] brought under the control of the state or the co-operatives', and the organisation of the economy brought under central planning.[251]

'Building a Country of Iron, Steel and Machines'

As we argued in the previous chapter, one of the most striking features of the capitalist world economy in the 20th century, which distinguished it from the capitalism of Marx's time, was the growing influence of the state in the internal production of national economies. This trend, which can be traced back to the late 19th century, became accentuated as capitalism expanded in the post-World War II decades, and was the key contributing factor behind the longest economic boom hitherto known – what has become known as 'the golden age of capitalism', or *les trentes glorieuses*, between 1945-1975.[252] Increased state intervention in the economy played a key role in the revival of US capitalism after the war. As both Keynesian and Marxist political economists have shown in different ways, increased military spending (often referred to as 'military Keynesianism' or 'permanent arms economy') played a key role in promoting economic recovery and the maintenance of positive growth rates in the first decades after World War II.[253] While the role of military expenditure was 'less important' in the Federal Republic of Germany (FDR), the Christian-democratic government of Chancellor Adenauer nonetheless played a pivotal role in post-World War II reconstruction. As the Marxist political economist Elmar Altvater recounts, 'far more than in any other capitalist country the bourgeoisie in the Federal Republic made use of the state apparatuses and the monetary and fiscal system to force capital accumulation by means of favourable depreciation rates, credits for reconstruction at favourable rates of interest and finance for investment. All this took place in contradiction to the official neoliberal theory…'[254] Similarly, the state, in close cooperation with the largest private firms, played a key role in the revival of the Japanese national capitalism after World War II, as well as the rapid economic growth and industrialisation of the small Southeast Asian 'Tiger economies' of Hong Kong, Singapore,

[251] *A Magyar Népköztársaság Alkotmánya 1949* (my translation). It should be pointed out that the new constitution did *not* exclude the right to hold private property.
[252] Dunn, *Global Political Economy*, pp. 132-153; Harman, *Zombie Capitalism*, pp. 161-190.
[253] Baran and Sweezy, *Monopoly Capital*; Michal Kalecki, *The Last Phase in the Transformation of Capitalism,* New York, NY: Monthly Review Press, 1974; Michael Kidron, *Western Capitalism Since the War*, London: Weidenfeld & Nicolson, 1968. For a summary of the role of military expenditure on post-World War II economies, see Dunn, *Global Political Economy*, pp. 140-142; Harman, op. cit., pp. 167-170.
[254] Altvater 1974, here cited in Harman, op. cit., p. 172.

South Korea, and Taiwan, in the period between the early 1960s and l990s.[255] The table below summarises these developments.

Table 3.1: State spending of selected countries as percentage of GDP, 1900-1970[256]

	France	*Germany*	*United Kingdom*	*United States*
1900	15.2	14.2	14.9	7.9
1930	22.1	29.4	24.7	21.3
1950	28.4	30.8	30.4	23.0
1970	38.9	37.6	39.3	32.2

In many ways, the structure of the Hungarian economy in the 1940s and 1950s reflected the *dirigiste* trends of the period. The Hungarian state assumed a key role in directing the reconstruction of the post-war economy, through awarding of contracts, the purchasing and allocation of raw materials, finished and semi-finished products, and the provision of credit to private firms. For example, 95 percent of the production at the Manfred Weiss Works, one of the biggest iron, steel, and engineering companies, was shipped to state authorities, while another engineering firm, Ganz, sold 74 percent of its production to the government.[257] As a result, Berend and Ránki have concluded that, already by 1946, 'A free market … hardly existed at all.'[258] In 1946-1947, a first nationalisation drive was launched by the popular front government, which included the nationalisation of the country's coalmines, the four largest firms in heavy industry, and the ten largest banks, thereby creating a virtual state monopoly of the credit system. As Berend and Ránki have pointed out, these measures marked 'the *continuation* of the methods of [a] war-economy.'[259]

---

[255] Harman, *Zombie Capitalism*., pp. 170-172. For a detailed account of late-capitalist development in the Southeast Asian 'Tiger economies', see Alice Amsden, *Asia's Next Giant: South Korea and Late Industrialization*. Oxford: Oxford University Press, 1989 and *The Rise of 'the Rest': Challenges to the West from Late-Industrializing Economies*, Oxford: Oxford University Press, 2001.
[256] Dunn, *Global Political Economy*, p. 136.
[257] Berend and Ránki, *The Hungarian Economy in the Twentieth Century*, pp. 186-187.
[258] Ibid., p. 187.
[259] Ibid., p. 186 (my emphasis).

The nationalisation of key economic sectors was, however, speeded up from 1948 and onwards, as the Rákosi regime began to implement a full-scale 'Sovietisation' of the Hungarian economy. The First Five-Year Plan was introduced in 1949 with aim of 'rais[ing] the economic and cultural level of our country in five years to an extent, which previously required decades.'[260] The MDP's firm determination to impose the Soviet model was symbolised by the declaration of Ernő Gerő, second in the MDP leadership and the central architect of its economic policy, who proclaimed that Hungary was to be transformed from an agrarian economy into 'a country of iron, steel and machines'[261]. This goal, while seemingly 'irrational' – for example, the country lacked iron ore completely – reflected Hungary's position as a Soviet satellite state, with economic development subordinated to the military demands of the Soviet Union in the context of increasing international competition between East and West.[262] In line with the basic principles of the Soviet model, planning was centralised in the hands of the recently founded National Planning Office (*Országos Tervhivatal*, OT), and became compulsory and comprehensive.[263] The process of bringing key sectors of the economy, such as banking and finance, heavy industry and manufacturing, under state ownership, which, as we noted above, had already been initiated *before* the Stalinist takeover in 1948, was now intensified and was essentially completed by December 1949, when all foreign-owned firms, all domestic enterprises with more than ten workers, and all printing and electrical factories were nationalised – a measure which covered 1,400 manufacturing enterprises, 400 construction companies, 600 printing and 220 transportation firms, and 80 catering businesses.[264] Foreign trade also became a state monopoly and, following the creation of the Council for Mutual Economic Assistance (CMEA) in 1949[265], underwent a radical eastward shift in subsequent years, with the Soviet Union replacing Germany as Hungary's

[260] Mátyás Rákosi, *Válogatott beszédek és cikkek*, Budapest: SZIKRA, 1955, p. 294.
[261] Ernő Gerő, *The Position of the Hungarian National Economy in 1952 and the Tasks in its Development: A Report*, Budapest: Hungarian Bulletin, 1952.
[262] Haynes, 'Class and Crisis...'.
[263] The traditional model of central planning implemented in Hungary by the Rákosi regime is described in detail in Swain, *Hungary: The Rise and Fall of Feasible Socialism*, pp. 53-84.
[264] Romsics, *Hungary in the Twentieth Century*, pp. 248-249; Swain, op. cit., p. 43.
[265] The Council for Mutual Economic Assistance (CMEA, also known as Comecon) was established in 1949 under the leadership of the Soviet Union, in order to foster closer economic and more integrated development between the countries of the Eastern bloc. Hungary was, together with Bulgaria, Czechoslovakia, Poland, Romania, and the Soviet Union, one of the founding members of the CMEA. Albania joined later in the same year, but left the organisation in 1961 (following the Soviet-Albanian split), while East Germany joined in 1950, Mongolia in 1962, Cuba in 1972, and Vietnam in 1978. The CMEA was officially disbanded on 28 June 1991, by the mutual consent of its members, at a meeting in Budapest.

largest trading partner.[266] However, collectivisation of agriculture, which had been a long-term goal of the MKP and was initiated in 1945, proceeded at a slower pace. As a result, at the end of 1949, only 1,300 agricultural co-operatives had been established in the Hungarian countryside, with an insignificant membership of 36,400.[267] In terms of the theoretical framework that we developed in the previous chapter, this was thus a period in which a centralised, state capitalist economy was coming into being in Hungary.[268] Against the background of heightened geopolitical rivalry between East and West, economic performance came to be seen by policymakers on both sides, as a crucial weapon. For the MDP and its sister parties elsewhere in Eastern Europe, this was a time that demanded 'an intensification of the class struggle'. 'The most radical challenge today', as Rákosi, Gerő, and their comrades insisted, 'is to raise labour productivity'.[269]

However, enforcing the productivity agenda amongst workers turned out to be much more complicated than what the Stalinist leadership believed. A new wage system, known as the 'piece-rate system' (*darabbér*), which sought to 'bind workers to the goals of the plan' and force them to increase their productivity through the introduction of payment-by-results, was introduced in 1948 and became the dominant wage form in Hungarian industry in the 1950s.[270] The regime's drive to increase productivity and output also involved the extension of the working day, as well as the introduction of Taylorist management techniques and productivity-raising campaigns. Schemes of 'socialist labour competition' were introduced in which workers and newly formed 'work brigades' (*munkásbrigádok*) were pitted against each other to raise the quantity and quality of production. Another cornerstone of the 'Sovietisation' of Hungarian labour regime was the introduction of the Stakhanovite movement on 21 December 1949 (for the occasion of Stalin's 70th birthday), and in the following years the spectacular norm-breaking records of the Budapest-based Stakhanovite

---

[266] In 1937, a mere 13 percent of Hungary's foreign trade was with other CMEA economies. By 1952, this figure had increased to 71 percent. The Soviet Union was Hungary's largest trading partner, accounting for 29 percent of Hungary's foreign trade in 1952. See Andrew C. Janos, *East Central Europe in the Modern World. The politics of the Borderlands From Pre- to Post communism,* Stanford, CA: Stanford University Press 2000, p. 235.

[267] Berend and Ránki, *The Hungarian Economy in the Twentieth Century*, pp. 182-185, 201.

[268] For the development of state capitalism elsewhere in Eastern Europe, see Dale, *Between State Capitalism And Globalisation,* pp. 139-162; Hardy, *Poland's New Capitalism*, pp. 13-18.

[269] Rákosi, *Válogatott beszédek és cikkek*, pp. 341-348.

[270] The piece-rate system replaced the Bedaux system, a scientific system of payments by results, which had been in place in before the war. The classical account of the piece-rate system is Miklós Haraszti, *A Worker in a Worker's State*, London: Penguin, 1977. See also Mark Pittaway, 'The Social Limits of State Control: Time, the Industrial Wage Relation, and Social Identity in Stalinist Hungary, 1948-1953', *Journal of Historical Sociology,* 1999, Vol. 12, No. 3, pp. 271-301.

József Kiszlinger received frenzied attention in the state media.[271] The most diligent workers were hailed as the 'vanguard' of a 'new working class' and earned handsome bonuses (and derision from their workmates). The very best were showered with publicity and prizes, such as theatre tickets, holiday camp vouchers, or, in outstanding cases, a chance to meet with the 'Great Leader', comrade Rákosi *in personam*.[272] Through measures like these, the Rákosi regime hoped to increase productivity, break down old hierarchies in the workplace based on divisions between skilled and unskilled-, old and young workers, gender, and urban and rural workers, and transform working class culture and behaviour, paving the way to the creation of a 'new communist working class', as epitomised by the Stakhanovite movement.[273] However, workers often contested the competitive culture that was demanded or sought to subvert the intentions of the Rákosi regime on the shop floor level through various forms of 'informal bargaining'.[274]

Engaged in the concurrent project of 'building socialism' while at the same time increasing economic productivity, the Rákosi regime quickly left aside its earlier aim of soliciting popular consent in favour of brutal coercion. By the end of 1948, all independent political and industrial organisations had either been crushed or captured by the MDP. Through the employment of 'salami tactics',[275] the Rákosi regime played a distinguishing role in the 'wave of political justice' that marked the onset of the Cold War, and which included Senator John McCarthy's pervasive witch-hunt against 'communist conspirators' in the USA,[276] the outlawing of the Communist Party (*Kommunistische Partei Deutschlands*, KPD) in West Germany, and a wave of show trials and purges in the Soviet Union and its Eastern European satellites. The State Security Agency (*Államvédelmi Hatóság*, ÁVH), set up in 1948, became responsible for the elimination of 'reactionary elements', both real and imagined, in Hungarian society. In one single year, the number of people it employed rose more than threefold: from 9,000 in 1949 to 28,000 a year later.[277] By then, the regime was

---

[271] Mark Pittaway, *The workers' state: industrial labor and the making of socialist Hungary, 1944-1958*, Pittsburgh, PA: Pittsburgh University Press, 2012.
[272] Romsics, *Hungary in the Twentieth Century*, p. 276.
[273] Described in detail in Pittaway, *The workers' state*, pp. 115-143.
[274] Pittaway, 'The Social Limits of State Control'.
[275] The term is usually attributed to Rákosi, who used it to describe the way in which the MKP destroyed non-communist parties by 'cutting them off like slices of salami'.
[276] Mark Rupert, 'Hegemony and the Far Right: Policing Dissent in Imperial America', in *The Longue Durée of the Far-Right: An International Historical Sociology*, edited by Rick Saull, Alex Anievas, Neil Davidson, and Adam Fabry, London: Routledge, 2014.
[277] Mária Ormos et al., *Törvénytelen Szocializmus. A Tényfeltáró Bizottság Jelentése*,Budapest: Zrinyi Kiadó, 1991, pp. 64-68.

becoming apparently paranoid of even the slightest criticism or discontent. The scope of the repression, which had previously concentrated on hunting down war criminals and supporters of the Horthy regime, now rapidly expanded to include prominent social democrats, as well as devoted Stalinists who were accused of 'Yugoslav deviationism' or being Trotskyists in disguise (or a combination of the two). One of the first victims was László Rajk, a longstanding member of the MKP and the former Minister of Interior (1946-1948), who was arrested on 15 June 1949 for allegedly spying for the 'imperialists', collaborating with Horthy's secret police, and holding friendly relations with the demonic Yugoslav Communist Party. His execution on 15 October 1949 sparked a wave of arrests and trials that convulsed Hungarian society in the following years.[278] A couple of months later the longstanding leader of the SZDP and former president of Hungary Árpád Szakasits, was arrested and sentenced to life under similar circumstances. However, Rajk and Szakasits were only two of the most renowned victims of the Stalinist purges in Hungary. According to a 1991 report commissioned by the Prime Minister's Office, an estimated 511,270 arrests were made in 1950-1953 alone, resulting in 387,177 prison sentences, out of which 33-50 percent were infractions that may be classified as 'political'.[279] Out of those that were sentenced, some went to prison, while others were sent to internment camps, where they were forced to work as manual or agricultural workers.[280]

The radical transformation wrought by the Rákosi regime extended to the entire Hungarian society. The construction of new factories, such as the Lenin metallurgy plant in Diósgyőr, or entire towns, such as the case of Sztálinváros (today Dunaújváros), were meant to demonstrate the virtues of Hungary's nascent 'socialist' society, while at the same time displaying its unwavering allegiance to Moscow.[281] New banks were established, supposedly untainted by 'capitalist' practices.[282] New university departments were also created, as 'bourgeois' science was rejected and 'class enemies' in the academia replaced with loyal party *apparatchiks,* who had been educated in Marxist-Leninist doxa. For example, in economics, which, according to Csaba, until then 'tended to follow world

[278] Pittaway, *Eastern Europe, 1939-2000*, p. 52.
[279] Ormos, *Törvénytelen Szocializmus*.
[280] The most famous internment camps was the copper mine at Recsk in the Mátra hills, west of Eger, also known as the 'Hungarian Gulag', where 1,500 prisoners where kept in secret and forced to work in the nearby copper mine.
[281] István Horváth et al., *Dunaferr Dunai vasmű krónika*, Dunaújváros: Dunatáj Kiadó, 2000; Tibor Weiner, 'Sztálinváros' in *Sztálinváros, Miskolc, Tatabánya: városépitésünk fejlődése*, edited by Aladár Sós, Budapest: Műszaki Könyvkiadó, 1959, pp. 17-88.
[282] Swain, *Hungary: The Rise and Fall of Feasible Socialism*, p. 60.

trends, mediated by *Austrian* tendencies',[283] this meant the purging of any 'bourgeois deviance' and its replacement with Marxist economics, which had hitherto not been taught at university level. Between 1947 and 1950, the party-state closed down the Faculty of Economics of the Hungarian University of Technology and Economics, the main university faculty of economics in Hungary (today known as Corvinus University of Budapest); the Hungarian Institute for Economics Research, the only independent economics research institute; and the Hungarian Economics Association; while the main professional economics journal (*Economic Review*) was replaced by the *Hungarian-Soviet Economics Review*. The economics faculty was finally reopened by the Rákosi regime in 1953, but under a new name, the Karl Marx University of Economic Sciences, which reflected its Marxist-Leninist principles. Economists who did not adhere to the official Stalinist dogmas were forced to leave, seeking shelter in the Institute of Economics of the Hungarian Academy of Sciences (*Magyar Tudományos Akadémia Közgazdaságtudományi Intézete*), which had been established in 1948 by reform-minded economists.[284] Thus despite being officially purged from the academia, ideas of 'market reformism' were able to survive in Rákosi's Hungary.

Notwithstanding the root-and-branch change to Hungarian society, most measures indicate that the Hungarian economy grew rapidly in the late 1940s and early 1950s. Between 1948 and 1950, national income increased by approximately 20 percent, while capital accumulation increased by 54 percent.[285] The growth of heavy industry was even more spectacular: between 1949-1953 industrial production rose by 210 percent, as compared to 120 percent in Bulgaria (1949-1955), 98 percent in Czechoslovakia (1949-1955), 158 percent in Poland (1949-1955), and 144 percent in Romania (1951-1955).[286] By 1953 the annual growth rate of Hungary's industry was 20 percent, in contrast to an average of 2

---

[283] László Csaba, 'Economics: Hungary', in *Three Social Science Disciplines in Central and Eastern Europe. Handbook on Economics, Political Science and Sociology (1989-2001)*, edited by Max Kaase, Vera Sparschuch, Agnieszka Wenniger, Bonn and Berlin: Social Science Information Centre, 2002. According to Csaba, mainstream Hungarian economic thinking can be dated as far back as the mid-1700s. Initially influenced by classical liberalism, introduced by Gergely Berzeviczy (a follower of Adam Smith), it was gradually replaced in the 19th and early 20th century by attempts to marry laissez-faire economics with greater market-protection and state intervention, drawing on the ideas of Friedrich List, but also reflecting a wider shift to the right in Hungarian politics during the inter-war years. See also László Lengyel, 'Két gazdász portréja: Varga István és Cs. Szabó László eltérő pályaíve', in *Korunkba zárva*, edited by *id*., Budapest: Pénzügykutató Rt., 1994 and Emil Niederhauser, 'Habsburg monarchia vagy önállóság?', in *Közgyűlési előadások*, *Vol. 4*, edited by Ferenc Glatz, Budapest: Magyar Tudományos Akadadémia, 2001.
[284] Csaba, op. cit. See also, Berend, *The Hungarian Economic Reforms, 1957-1990*; Bockman, *Markets in the Name of Socialism*.
[285] Berend and Ránki, *The Hungarian Economy in the Twentieth Century*, p. 202.
[286] Harman, *Class Struggles in Eastern Europe*, p. 80.

percent per year during the interwar years. As a result, industrial output was almost three times higher than it had been in 1938, while its share of national income increased from 39 percent in 1939 to 54 percent by 1954.[287] However, when reflecting on these figures it needs to be borne in mind that this growth was from a very low basis. Moreover, as Berend and Ránki point out, much of this investment was not aimed towards the needs of Hungary, but was rather 'planned for the needs of the Soviet Union – for which Hungary was to serve as an industrial workshop.'[288] Also, the investment allocated to agriculture was repressed, As a result, agricultural production continued to lag behind, with total output in the agricultural sector in 1950 only amounting to 90 percent of 1938 levels.[289]

By the time the First Five-Year Plan was coming to an end in 1953, the structure of the Hungarian economy increasingly came to resemble that of the Soviet Union. In preparations for what seemed as an impending military conflict with the West, which seemed ever more likely after the formation of the North Atlantic Treaty Organization (NATO) in 1949 and the outbreak of the Korean War in 1950, the Rákosi regime initiated a policy of rapid rearmament, the economic effects of which should not be underestimated. Firstly, it was very expensive. Between 1950 and 1952 one-quarter of the entire state budget was poured into the military.[290] Secondly, it shifted Hungary's economic structure even further from light- towards heavy industry, in particular the production of raw materials (mining, electricity, construction materials, and chemicals) and heavy engineering.[291] The decision to prioritise the expansion of heavy industry was not a coincidence, as Ernő Gerő, the chief architect of economic policy later recalled, 'We had the information, that we had to count on a forthcoming war in three to four years'.[292] Thirdly, and finally, the military rearmament, by enrolling more than 250,000 men into the new People's Army (*néphadsereg*), further aggravated the labour shortages that had been growing as a result of rapid industrialisation.[293]

---

[287] Romsics, *Hungary in the Twentieth Century*, p. 275.
[288] Berend and Ránki, *The Hungarian Economy in the Twentieth Century*, p. 204.
[289] Romsics, op. cit., p. 279.
[290] Ibid,, p. 274.
[291] Ibid., p. 275.
[292] Gerő, here cited in Berend and Ránki, op. cit., p. 205.
[293] For figures on the Hungarian People's Army, see Béla K. Király, 'The Hungarian Army under Soviet Control', in *20th Century Hungary and the Great Powers*, edited by Ignác Romsics, New York, NY: Columbia University Press, 1995, p. 289.

In several ways then, the Soviet-style growth strategy of enforced industrialisation and militarisation was damaging and distorting the Hungarian economy. Firstly, the tempo of the regime's overambitious industrialisation drive was out of proportion to the country's economic resources. Second, the rapid expansion of heavy industry that had taken place in the late 1940s and early 1950s was heavily dependent on the existence of a labour surplus and under-utilised production capacity. However, this surplus was now rapidly becoming exhausted. Thirdly, overemphasis on heavy industry was contributing to a noticeable lack of consumer goods. The narrow range of consumer goods is illustrated by the example cited by Romsics, who notes that before World War II, 80 types of shoes were produced in Hungary; by the early 1950s, this figure was down to just 16.[294] Between 1949-1953 real wages for workers *fell* sharply: by the end of 1952 they were down by almost 16 percent compared to their 1949 value. The fall in real wages contributed to a fall in living standards, which by 1953 were down by an estimated 20 percent compared to 1948 levels.[295] This decline conflicted sharply with the Rákosi regime's promise of *increasing* the standard of living by 50 percent by the end of the First Five-Year Plan, and was causing mounting unrest among workers and peasants in Hungary.[296]

The Hungarian Revolution of 1956

The death of Stalin in March 1953 brought a milder ideological climate and speeded up calls for political and economic reforms throughout the Soviet bloc. Whilst the 'rationality' of the Soviet system remained unchallenged, there was a growing recognition amongst the bureaucracies of the region that the needs of the population had be taken into greater consideration if social unrest, similar to those witnessed in the summer of 1953 in the GDR and Czechoslovakia, was to be avoided in the future. In Hungary, the news of the strike and uprising in East Berlin had a strong impact on Rákosi, who according to Rainer, 'was moved to conclude that, short of a complete change of course, they could find themselves in a similarly deep crisis.[297] However, as events soon revealed, this change of course was not to be carried out by Rákosi.

[294] Romsics, *Hungary in the Twentieth Century*, p. 276.
[295] Fejtő, *A History of the People's Democracies*, p. 250; Romsics, op. cit., p. 280.
[296] Fejtő, op. cit., p. 250; Harman, *Class Struggles in Eastern Europe*, p. 80.
[297] János Rainer, *Imre Nagy: A Biography,* London: I.B. Tauris, 2009, p. 58.

In June 1953, the heavy-handed Rákosi was summoned to Moscow, and, after a public humiliation, replaced by the 'reform-minded' communist and former Minister of Agriculture Imre Nagy,[298] as head of the government.[299] (Although, Rákosi retained *de facto* control over the party, remaining its general secretary.) The first news that the Hungarian public received of the impending changes was from Nagy's policy speech made on 4 July 1953, which was broadcasted live by Hungarian radio. In his speech, Nagy openly criticised the economic policies of his predecessor:

> We have to acknowledge to the country that the targets of the augmented five-year plan are in many respects beyond our capability. … The government will revise both the production and investment aspects of the economic plan and make appropriate proposals for necessary reductions. The direction of the people's economy must be revised also. Nothing justifies the excessive industrialisation and the attempt at autarchy, especially when we lack the requisite resources.[300]

With regard to agriculture, Nagy went beyond the official party line and presented a strategic shift: '[a]s is well known, our agricultural production depends primarily on individual farms. … The government wishes to safeguard peasant production and property.' He also proclaimed that private enterprise was to be allowed and craft licences granted.[301] According to Romsics the impact of the speech, 'especially amongst peasants, was electrifying. In some villages the inhabitants dressed up in their Sunday best, cracked open barrels of wine and improvised celebratory dances to elated shouts of "The Rákosi government has fallen".'[302]

Taking advantage of Moscow's apparent political backing, Nagy moved quickly to implement his government's programme, which was appositely named the 'New Course'. By the end of 1953, numerous measures were introduced to ease the level of political repression in society: the powers of the hated secret police (ÁVH) were curbed; limited

---

298 However, as Nagy's biographer, János M. Rainer (here cited in *Imre Nagy*, p. 47) points out, Nagy did not represent a 'radical' shift in the Party's orientation. Nagy was a Stalinist with 'reformist' leanings who had risen trough the ranks of the MKP. However, there was one respect in which Nagy stood out from his fellow emissaries in Hungary. As the famous Hungarian political theorist István Bibó (who also served as Minister of State in Nagy's last cabinet during the Hungarian Revolution of 1956) noted, 'the Communists who returned from … Stalin's shadow, had somehow an inhuman quality about them – with the exception of Imre Nagy.' And in the heartless conditions, which characterised Hungary during Rákosi's dictatorship, in the late 1940s and early 1950s, this was a rare characteristic indeed.

299 Ibid., p. 58; Romsics, *Hungary in the Twentieth Century*, pp. 294-295. According to Nagy's own account, 'Key members of the Soviet Communist Party … declared that the mistakes and crimes of the four-man Party leadership in Hungary … had driven the country to the verge of catastrophe, shaking the People's Democratic system to its foundations.' Nagy, here cited in Harman, *Class Struggles in Eastern Europe*, p. 80.

300 Nagy, here cited in Rainer, op. cit., p. 61.

301 Ibid., p. 61.

302 Romsics, op. cit., p. 295.

political amnesty was provided to former 'class enemies' (including old party comrades, such as János Kádár, the future leader of Hungary, who had fallen out favour with the Rákosi regime in 1951); forced labour camps were closed; and greater tolerance was allowed on religious matters. According to a report commissioned jointly by the Ministry of Interior and the state prosecutor, 'approximately 748,000 persons [were] affected' by the political reforms. As Rainer points out, while these reforms remained 'limited', the political liberalisation initiated by the Nagy government went far beyond what was conceivable in other Soviet bloc countries at the time.[303]

Within the economy, the New Course set itself the task of rectifying the most glaring mistakes of the Rákosi regime, eliminating the symptoms rather than the inherent faults of state capitalism.[304] Rejecting the old guard's 'obsession with balanced budgets and overproduction of industrial goods'[305], Nagy and his economic advisors introduced a set of measures that sought to decelerate the tempo of accumulation (by lowering the plan quotas), while shifting capital investment from heavy industry to agriculture, food processing and consumer goods, and housing construction. Measures were taken to boost living standards through the provision of wage increases, averaging approximately HUF 100 per capita (circa 10-11 percent of the average monthly income), together with simultaneous price reductions. The economic reforms sought to reduce the burden on the general population, in particular the farmers and the petit bourgeoisie (artisans, shopkeepers, small traders, etc.), which now reappeared to some extent.[306] As one of my interviewees recalls, 'in 1955, when the Rákosi regime was dissolving, my parents, who were artisans (glass makers) in Pécs, could re-apply for an industrial license. So they became self-employed [*maszek*] again.'[307] Between 1953-1955, similar, 'quasi-Keynesian'

---

[303] Rainer, *Imre Nagy*, p. 67.

[304] An important analysis of the shortcomings of Rákosi regime's economic policies, written by the chairman of the Central Statistics Office (KSH) György Péter, was published in December 1954 in the recently re-launched *Közgazdasági Szemle*. He criticised the administrative-bureaucratic, over-centralised system of direction and suggested the introduction of a number of market reforms in order to raise 'efficiency' and 'profitability'. State intervention and the bureaucratic apparatus should be reduced and planning concentrated on the 'direction of the development and the structure of the economy'. Prices and wages should no longer be based on bureaucratic norms, but determined by the market. See György Péter, 'A gazdaságosság jelentőség-éről és szerepéről a népgazdaság tervszerü irányitásában', *Közgazdasági Szemle*, 1954, Vol. 1, No. 3, pp. 300-324. See also Iván T. Berend, *Gazdasági útkeresés 1956-1965*, Budapest: Magvetö Kőnyvkiadó, 1983 and Pető and Szakács, *A hazai gazdaság…*

[305] Gáspár M. Tamás, 'Marx on 1989', in *First the Transition Then the Crash: Eastern Europe in the 2000s*, edited by Gareth Dale, London: Pluto Press, 2011, p. 26.

[306] Aldcroft and Morewood, *Economic Change in Eastern Europe since 1918*, p. 110; Fejtő, *A History of the People's Democracies*, p. 250; Rainer, *Imre Nagy*, pp. 66-68.

[307] Interview with Z.M.P 21 December 2011.

economic reforms were introduced throughout Eastern Europe, including in Czechoslovakia, the GDR, and Poland.[308]

The New Course portrayed Hungary as a potential model of a future version of ‘socialism with a human face’. However, the dream was not to be long-lived. As the political power struggle in Moscow took new turns and Hungary’s economic situation worsened in 1954-1955 – in part due to adverse weather conditions beyond the control of the Nagy government –, opposition to the New Course intensified within the party-state.[309] In February 1954, Nagy had argued for delaying the opening of the massive steel plants in Sztálinváros. However, the Politburo overruled this proposal and the prestigious project, envisioned in Rákosi’s First Five Year Plan in 1949, was inaugurated according to schedule in 1954. As Rainer has pointed out, this ‘was generally viewed as a symbolic defeat for the New Course. All the groups that saw their interests endangered by a transfer of investment measures felt themselves strengthened thereby.’[310] Nagy and his allies attempted to save what could be saved from their reform programme, but were forced to surrender in early 1955, after the Soviet leadership withdrew its support for the reforms and demanded that its ‘mistakes’ be corrected. On Rákosi’s initiative, Nagy was accused of ‘rightist deviations’ and ‘revisionism’. On 14 April, he lost his place in the Politburo and four days later he was relieved from his office as Prime Minister, being replaced by András Hegedüs, a young politician who was generally considered a puppet for Rákosi and Gerő.[311]

Once back in power, Rákosi, Gerő, and their supporters sought to resume the old Stalinist course where it had broken off in the summer of 1953, calling for an ‘increase in productivity and efficiency, the precise fulfilment and *overfulfillment* of the plan.’[312] At the same time, political repression was resumed: the hated ÁVH was reactivated, while supporters of Imre Nagy were fired from their jobs, and others, including Nagy himself, were dismissed from the party,[313] However, the decision to clamp down on the reforms introduced by the Nagy government antagonised wide layers of Hungarian society, including sections of the working

[308] For a briew overview, see Aldcroft and Morewood, *Economic Change in Eastern Europe since 1918*, pp. 111-113; Fejtő, *A History of the People’s Democracies*, pp. 249-251.
[309] Rainer, *Imre Nagy*, p. 71; Romsics, *Hungary in the Twentieth Century*, pp. 297-298.
[310] Rainer, op. cit., p. 72.
[311] Romsics, op. cit., p. 298.
[312] Rákosi, *Válogatott beszédek és cikkek*, p. 610 (my translation and emphasis).
[313] Romsics, op. cit., p. 298.

class, intellectuals, and students. The upheaval began following the 20th Congress of the Soviet Communist Party, held on 24-25 February 1956, where Nikita Khrushchev denounced Stalin and the methods of terror associated with his regime. The speech had an electrifying effect in Hungary, as it weakened the confidence of many party members in the regime, and increased demands for change. In an attempt to placate public discontent, Rákosi was removed as party leader and replaced by Gerő in July 1956. But this move only increased the assertiveness of the opposition, and, by September 1956, there was 'a real feeling of panic' amongst party ranks in Budapest. On 23 October 1956, a massive student-led demonstration revealed the illegitimacy of the regime and the demand for radical changes. The crowds, which filled the entire Kossuth Square in front of the House of Parliament, presented a list of 16 key demands to the government, calling for the evacuation of Soviet troops, the re-instalment of Imre Nagy, and an end to the hated piece-rate system.[314] The regime denounced the demonstrators as 'counter-revolutionaries' and responded by firing into the unarmed crowds. In the following two weeks a revolution swept the country, which saw the old government removed from power and revolutionary 'workers' councils' (*munkástanácsok*) set up in the workplaces, and was only suppressed following violent repression by Soviet troops.[315] It starkly illuminated the contradictions of Soviet-style 'socialism' in general, as well as its particular configuration in Hungary.

The Hungarian Revolution of 1956 was not an attempted 'counter-revolution', instigated by alleged anti-socialist 'agitators', 'the Horthy-fascist and Hungarian capitalist-gentry', and 'agents of international imperialism' in order to overthrow 'socialism', as the supporters of Soviet intervention in Hungary and abroad, including the Communist parties in both the Soviet bloc and the West, maintained.[316] On the contrary, as the meticulous work of a number of dedicated scholars and activists committed to 'history from below' has shown, Hungarian workers, in particular young workers, played a crucial role in driving the Revolution forward by radicalising anti-regime protests, setting up revolutionary 'worker's councils' in workplaces, and spreading the revolution out from Budapest to working class suburbs, provincial towns, and eventually to rural villages. Although the

[314] Resolution of the Students of the Budapest University of Technology and Economics [*Budapesti Műszaki és Gazdaságtudományi Egyetem*]: 'Sixteen Political, Economic, and Ideological Points', Budapest, 22 October 1956. Available on: http://www.fordham.edu/halsall/mod/1956hungary-16points.html (last obtained on 24 October 2013).

[315] The classical account of the Hungarian Revolution in English remains Bill Lomax, *Hungary 1956,* London: Allen and Busby, 1976. See also Harman, *Class Struggles in Eastern Europe*; Mike Haynes, 'Hungary: Workers' Councils against Russian Tanks', *International Socialism*, 2006, No. 112.

[316] MSZMP, here cited in Romsics, *Hungary in the Twentieth Century*, p. 319.

revolution ultimately failed, it had rocked established institutions, not only in Hungary and the wider Soviet bloc, but also in the West, broken assumptions, and overturned stereotypes that were considered 'common sense' amongst scholars and policymakers in the Cold War-era.[317] In so doing, the failed revolution would go on to radically reconfigure the political and socio-economic arrangements that were to follow in Hungary in the ensuing period.

The Kádár Regime and the Antinomies of Reform

In the 1960s, the Hungarian leadership would re-embark on a process of economic and political reform, which would come to see profound changes in Hungarian society. Officially launched on 1 January 1968, the New Economic Mechanism (NEM), as the reforms were termed, has widely come to be known as 'the most ambitious economic reform programme ever undertaken in a Warsaw Pact country.'[318] As we show in the following subsections, these changes need to be understood within the context of the external and domestic pressures facing the Kádár regime in this period: the competitive pressures of the capitalist world economy, the policy shifts of the Soviet Union towards its satellite states in Eastern Europe, and last, but not least importantly, what Marx described as the 'ebb and flow of revolutionary passions, hopes, and disappointments'[319] of the class struggle in Hungary.

The Economic and Political Origins of the New Economic Mechanism

The origins of the NEM date back to the early 1960s, when the revamped party-state, under the leadership of the pragmatic János Kádár, revisited ideas on economic and political reforms. Having crushed the Revolution in 1956 through the help of Soviet troops, and subjugated all opposition forces, Kádár needed to re-establish the ruling party's hegemony over Hungarian society. It should be emphasised, however, that restoring 'law

[317] The Hungarian Revoluton of 1956 was a strong antidote to the 'totalitarian' thesis, which remained dominant amongst scholars and policymakers in the West during much of the Cold War. It also turned the idea that workers were no longer a revolutionary force in society on its head.
[318] David L. Bartlett, *The Political Economy of Dual Transitions: Market Reform and Democratization in Hungary,* Ann Arbor, MI: University of Michigan Press, 1997, p. 2.
[319] Karl Marx, *The Class Struggles in France, 1848 to 1850*, in *Selected Works,* Vol. 1, Moscow: Progress Publishers, [1850]/1969.

and order' after 1956 was by no means an easy task.[320] Although the invading Soviet army had crushed most of the armed resistance by 11 November 1956, the majority of Hungarian society maintained a hostile stance towards the new authorities for a considerable time thereafter, while internationally, the new regime could count on few allies apart from the Soviet Union. In the factories, the immediate reaction to the Soviet intervention was one of furious shock. The Central Workers' Council of Greater Budapest (*Nagybudapesti Központi Munkástanács*), set up on 14 November 1956, organised a general strike on 21-22 November, which was followed the day after by a one-hour silent protest in the capital, where 'everything came to a halt and the streets were left practically deserted'.[321] Throughout Hungary, many factories stood still in November and December, while the public transportation system in the Budapest was only working occasionally, due to strikes.

In order to clamp down on the resistance Kádár and his supporters adopted what Pittaway has described as a 'two-track strategy', which involved the careful manoeuvring between policies of negotiation and repression.[322] Initially, he sought to acquiesce workers' demands by entering into negotiations with the Central Workers' Council. At one such meeting, Romsics writes, Kádár was even reported to have said: 'Let us relinquish the monopolistic position of the Party. We want a multiparty system and free, honest elections.'[323] When these measures failed to encourage workers to resume work, the regime's policies shifted to a policy of explicit repression.[324] On 9 December the headquarters of the Central Workers' Council were raided (in anticipation of a two-day general strike called for 11-12 December), and in the coming days some 200 activists,

---

[320] It should be emphasised that restoring 'law and order' in Hungary after 1956 was by no means an easy achievement. According to Szlajfer, the Kádár leadership spent the first six years after the revolution 'brutally dismantling' the 'revolt syndrome'. Henryk Szlajfer, 'Under the Military Dictatorship: between "Freeze Frame" and "Restoration" ', in Michael Bernhard and Henryk Szlajfer (eds.), *From the Polish Underground: Selections from Krytyka, 1978-1993*, University Park, PA: Pennsylvania State University Press, 1995, p. 13. See also: Kramer, here cited in Seleny, *The Political Economy of State-Society Relation*s, p. 61, fn. 90.

[321] Romsics, *Hungary in the Twentieth Century*, p. 317.

[322] Mark Pittaway, 'The Revolution and Industrial Workers: the Disintegration and Reconstruction of Socialism, 1953-1958', *Hungarian Studies Review*, 2007, Vol. 34, No. 1-2, pp. 115-154. See also Romsics, op. cit., p. 316-336.

[323] Romsics, op. cit., p. 318.

[324] As the Deputy Prime Minister, Antal Apró, later stated at a speech in Kecskemét on 19 September 1957: 'The overwhelming majority of the workers' councils were dissolved because in many places their activities were both economically and politically harmful and their composition was wholly unsuitable.' Apró, here cited in Grzegorz Ekiert, *The State against Society: Political Crises and Their Aftermath in East Central Europe*, Princeton, NJ: Princeton University Press, 1996, pp. 358-359.

including the leaders of the council, Sándor Báli and Sándor Rácz, were arrested.[325] Martial law was declared, summary courts – officially known as 'people's tribunals' (*népbiróságok*), to provide a sense of 'legitimacy' to the regime's actions – were set up, and the death penalty was introduced for 'inciting strikes'.[326] Although workers continued to resist through localised strikes (in some factories these continued throughout December and into January), by early 1957 it was becoming apparent that armed resistance against the regime was futile. Faced with the prospect of heavy prison sentences, in some cases even the death penalty, many younger workers fled the country, while those that remained were slowly forced back to the factories.

Once the immediate threat of the revolution had been overcome Kádár could turn his energy to consolidate his power over the party and 'to win over the passive majority of the populace.'[327] In order to consolidate his power, Kádár carried out a rapid overhaul of the party and the main state organs. In December 1956, the newly formed MSZMP[328] had only 37,000 members, but one year later, it had reached 400,000 (almost half of the strength the MDP boasted in August 1956). According to Romsics, 'Most of the applicants were old party members, partly hard-line Stalinists, partly "moderates" who supported Kádár, whilst very few of those who had professed the Imre Nagy brand of reform Communism chose to rejoin'.[329] Although the high level of recruitment would fall off later on, the party held 662,000 members in 1970, more than half of whom joined the party after 1956.[330] According to Romsics, 'A significant proportion of the new intake of members were low-grade white-collar workers who joined in hope of career advancement.'[331] By 1970, only 38 percent of the party's members were 'manual workers', and this figure had decreased further to 32 percent fifteen years later. Hence, 'rather than being a manual workers' party, the MSZMP increasingly became a "white-collar" party for office employees and professional classes, though even in 1985 the proportion of members claiming to have

---

325 On the elimination of the Central Workers' Council of Greater Budapest, see Lomax, *Hungary 1956*, pp. 165-169; Harman, *Class Struggles in Eastern Europe*, pp. 182-185; Haynes, 'Hungary: Workers' Councils against Russian Tanks'.
326 Harman, op. cit., p. 183.
327 Romsics, *Hungary in the Twentieth Century*, p. 321.
328 The MSZMP was formed on 1 November 1956, following the dissolution of the erstwhile ruling party, the MDP, during the Hungarian Revolution.
329 Romsics, op. cit., p. 323.
330 Ibid.
331 Ibid.

started their working life in a manual occupation was 62%, which suggests that the party functioned as one of the prime channels for intra-generational upward social mobility.'[332]

The new, 'centrist turn' of the MSZMP was confirmed by reinforcing the personal authority of Kádár, while Stalinist 'hardliners', such as Rákosi and Gerő were expelled from the party and replaced with 'reformers'. As a result of these changes, Korbonski argues that Kádár had successfully managed to 'eliminate the two extremes on the left and right, thus fashioning a party that was essentially centrist and, what was more important, united in its loyalty to Kádár as the person who was willing and able to pick up the pieces in the crucial days of November 1956.'[333]

Having consolidated the new regime, Kádár now turned his attention to winning over the wider Hungarian population. In order to achieve this, Kádár pursued a 'pragmatic approach', offering a relaxation of political oppression and the provision of material benefits to the population, especially the working class, the intellectuals, and the peasantry, in return for tacit allegiance to the regime. Factory workers, miners, and teachers were provided pay rises averaging 18 percent, dating back to 11 November 1956, while the regime also sought to win over sections of the petty-bourgeoisie by offering tax reductions, including a 20 percent decrease for 'small entrepreneurs in the craft industries … and private-sector shopkeepers and those in the free professions.' 'As a result', Romsics writes, 'the numbers of people working in businesses outside the state sector grew by 20-25% within just a few months.'[334] For the peasantry, limited market reforms were introduced in agriculture, enabling agricultural cooperatives opportunities to engage in private farming and providing them with access to credit and marketing facilities. Simultaneously, amnesty was provided to former political prisoners, censorship in the arts was gradually relaxed, and travelling to the West allowed. The regime's more 'conciliatory' tone was summarised by Kádár's closing speech at the 8th MSZMP Congress on 20-24 November 1962, in which he proclaimed: 'Everyone who is striving for the cause of socialism and peace must be united on the basis of the socialist policy of national unity. We must bring together Communists and those outside the party, politically active supporters of the régime and

---

332 Romsics, *Hungary in the Twentieht Century*, pp. 323-324.
333 Andrzej Korbonski, 'Political Aspects of Economic Reforms in Eastern Europe', in *Economic Development in the Soviet Union and Eastern Europe*, Vol. 1, edited by Zbigniew M. Fallenbuchl, London: Praeger, 1975, p. 11. See also Fejtő, *A History of the People's Democracies*, p. 114; Romsics, op.cit., p. 333; Swain and Swain, *Eastern Europe since 1945*, p. 135.
334 Romsics, op. cit., p. 321-322.

those who today are still wavering, the indifferent, those who hold to a materialist world-view and people of religious disposition alike. The construction of a socialist society is a matter for the nation as a whole.'[335] In other words, as declared in Kádár's famous slogan, originally published in January 1962 and later repeated so many times over the years: 'those who are not against us is with us.'[336]

Western governments also looked positively upon the changes in Hungary and showed themselves ready to rehabilitate the Kádár regime. Following assurances by Kádár to the US government to offer a general amnesty to political prisoners Hungary was formally re-accepted to the 'international community' on 8 January 1963, when the United Nations (UN) recognised the credentials of Hungarian delegates. The official visit of UN Secretary General Thant on 1-3 July of that year was another important victory for the regime, while another important signal that the regime's international isolation had come to an end was the move of Belgium, France, and the UK to upgrade their diplomatic missions in Hungary to ambassadorial level.[337] By 1964, even American leaders, who had previously been amongst the sharpest critics of the regime, professed that 'Hungary has perhaps gone farther than any other satellite in de-Stalinising the Communist system and the movement in that direction continues.'[338]

The reforms introduced by the Kádár regime in the late 1950s and early 1960s had restored the political and economic conditions of the New Course. However, with the memories of the Hungarian Revolution fresh in their minds, the MSZMP leadership knew that if they wanted to be successful in consolidating their rule, they needed to restore economic growth and ensure higher living standards to the population. However, this was not an easy task at a time when the Soviet-style state capitalist economies were facing a general slowdown in economic growth and investment, shortages of consumer goods, raw materials, and intermediate and capital goods.[339] In the case of Hungary, growth of national income had decreased to 4.1 percent annually in the period between 1961 and 1965, as compared to 6.0

[335] János Kádár, *Válogatott beszédek és cikkek*, *1957-1974*, Budapest: Budapest: Kossuth Könyvkiadó, 1975, p. 171.
[336] Kádár 1962, here cited in Swain and Swain, *Eastern Europe since 1945*, p. 151.
[337] Romsics, *Hungary in the Twentieth Century*, p. 332.
[338] 'Memorandum from President's Special Assistant for National Security (Bundy) to President Johnson', 14 April 1964, here cited in James E. Miller and Glenn W. LaFantasie (eds.) 1996, *Foreign Relations of the United States, 1964-1968, Volume XVII: Eastern Europe*, Washington, DC: United States Government Printing Office, 1996, p. 301.
[339] Seleny, *The Political Economy of State-Society Relations*, p. 67.

percent between 1956 and 1961, while annual growth of investment had fallen even more sharply, from 13.1 percent to 4.7 percent.[340] Yet, as the table below indicates, this tendency was not limited to Hungary, but was also visible elsewhere in the Soviet bloc.

Table 3.2. Average annual growth rate of national income and investment, CMEA states, 1951-1965[341]

Country	**National income**			**Investment**		
	1951-1955	1956-1960	1961-1965	1951-1955	1956-1960	1961-1966
Bulgaria	12.2	9.6	6.7	12.3	17.7	7.9
Czechoslovakia	8.1	7.0	1.9	9.6	13.1	2.0
GDR	13.1	7.1	3.4	17.7	14.6	5.0
Hungary	*5.7*	*6.0*	*4.1*	*11.1*	*13.1*	*4.7*
Poland	8.6	6.6	6.2	11.2	8.9	7.0
Romania	14.2	6.6	9.1	18.3	13.6	11.2
USSR	11.3	9.2	6.5	12.1	13.1	5.5

In the meantime, while growth in the state capitalist economies was decelerating, competitive pressures from the West were mounting. Between 1951 and 1964, the annual growth of gross national income was 5.4 percent in Western Europe, compared to 4.9 percent in Eastern Europe.[342] Rigid internal production structures, which continued to favour industrial production over specialisation in goods and services, made it difficult for the state capitalist economies to adapt to changes in external and internal market conditions.[343] In an attempt to keep with competition, Hungarian policymakers were gradually turning to imports from the West, as a means of speeding up production. However, this deteriorated the country's balance of payments, in particular with more advanced Western economies: according to the MSZMP's Political Committee, Hungary's gross external debt more than doubled between 1959-1962, from HUF 1.6 billion to HUF 3.7 billion (with short-term maturity debts rising from HUF 1.2 billion to HUF 3

[340] János Rainer, *Bevezetés a Kádárizmusba*, Budapest: 1956-os Intézet–L'Harmattan Kiadó, 2011, p. 180.
[341] Pető and Szakács, *A hazai gazdaság…*, p. 405.
[342] Fejtő, *A History of the People's Democracies*, pp. 251-252.
[343] Aldcroft and Morewood, *Economic Change in Eastern Europe since 1918*, pp. 113-116; Seleny, *The Political Economy of State-Society Relation*s, p. 67.

billion).[344] In addition to this, the economic difficulties of the Eastern European satellite states were exacerbated by Moscow's decision to shift crude-oil production from the area close to the Caspian Sea to Siberia, thus increasing the cost of energy. The latter decision was, as Seleny points out, particularly problematic for Hungarian policymakers, since 'the energy-intensity of production in Hungary was widely acknowledged to be '"irrationally" high'. Hence, compared to other countries with similar levels of development, Soviet-style state capitalist countries used 'far higher proportions of material and energy inputs'. [345]

The New Economic Mechanism: Preparations, Decision-making, and Policy Implementations

Faced with the above-described 'structural and conjunctural exigencies',[346] leaders throughout the Soviet bloc realised the necessity for economic reforms. As usual, the 'green light for reform' was provided by Moscow, in the autumn of 1962, when the renowned Soviet reform economist Evsei Liberman published his celebrated article on 'Plan, Profit, Premium' in *Pravda*, the official organ of the Soviet leadership.[347] Although Liberman's reform proposals were 'considerably less radical' than those put forward by Polish and Hungarian comrades in the mid-1950s, it sparked off a wave of reform debate amongst economists within the Soviet bloc.[348] For Eastern European leaders, it now seemed safe to introduce reforms. The East Germans, under the leadership of Walter Ulbricht, were first out, announcing the introduction of the 'New Economic System' (NES) in January 1963. The reforms, which were primarily aimed at improving economic efficiency, were extended to the entire economy in January 1964. Other governments in the region soon followed, 'some of them rapidly and baldly, others hesitantly and cautiously.'[349]

---

[344] Here cited in György Földes, *Az eladósodás politikatörténete, 1957-1986.* Budapest: Maecenás Könyv-kiadó, 1995, p. 34. See also Berend and Ránki, *The Hungarian Economy in the Twentieth Century*, pp. 239-240.
[345] Seleny, *The Political Economy of State-Society Relations*, p. 67, fn. 112.
[346] Ibid,, p. 67.
[347] Aldcroft and Morewood, *Economic Change in Eastern Europe since 1918*, p. 113; Swain and Swain, *Eastern Europe since 1945*, p. 134.
[348] For an overview of the reform debates in other Sovie bloc econoimes, see Berend, *The Hungarian Economic Reforms, 1957-1990*, pp. 129-132.
[349] For an overview of the economic reforms introduced in Soviet bloc during the 1960s, see Fejtő, *A History of the People's Democracies*, pp. 256-258.

In Hungary, the MSZMP leadership had resumed debates on economic reform following the 8th Party Congress in 1962, where members of the *nomenklatura* had voiced concerns over Hungary's poor export performance and the inefficient operation of state-owned enterprises. In response to these concerns, the need for economic reform was formally recognised in July 1964, when the State Economy Committee, drafted a decree (passed in December of that year), which called for the elaboration of a comprehensive conception for modernising the economic mechanism within two years. Two years later, the MSZMP Central Committee spelled out the economic and political rationale behind the reforms in dramatic terms:

> its [the reform programme's] economic necessity is rooted in the fact that the *past sources, reserves of economic growth are being depleted*. Hence, rapid growth in the future is only possible through a *more intensive exploration of our internal economic reserves* and by *accelerating technological development*. The political importance of the reforms lies, above all, in the fact *that it seeks to ensure a rapid increase in the living standards of the masses, and strives to ensure that the living standards of each worker will be more dependent on the social usefulness of his or her labour, individual performance, and collective productivity*. Moreover, *the reform also has as its political aim to further individual initiatives and responsibility by removing barriers and excessive constraints, and combat bureaucratic tendencies*. The development of socialism, providing greater freedom for the unfolding of creative work in the public interest, is necessary. Finally, the reforms have as a political objective to create more favourable conditions for the further development of socialist democracy. The handling of economic affairs ought to be based on the *competence of managers*, *their broad powers and personal responsibility*, while at the same time ensuring adequate control [over the production process] for democratically elected bodies and the general public.[350]

As the above quote demonstrates, the reasons behind economic reform in 'socialist' Hungary were strikingly similar to the logic of 'competitive accumulation' that operated in the 'capitalist' states in the West.

The MSZMP Central Committee entrusted Rezső Nyers, a former social democrat and Minister of Finance between 1960-1962, with the task of coordinating the work on the economic reforms. Nyers had confirmed his reformist zeal in an article published in

---

[350] MSZMP, *A Gazdasági Mechanizmus Reformja: A Magyar Szocialista Munkáspárt Központi Bizottsága 1966 május 25-27 ülésének anyaga*, Budapest: MSZMP, 1966, pp. 8-9 (my translation and emphasis).

Társadalmi Szemle, the party's main theoretical journal in 1964, noting that: 'The methods of directing the economy and the financial incentives must accord at all times with the dominant economic and political goals … It would by no means be correct to identify the essence of the socialist planned economy with a particular planning method. The Marxist-Leninist economic concept of socialism provides scope for a wide variety of methods, indeed for the periodic change of methods and mechanism, which is, moreover, part of it.' As he went on to note, the time was now 'ripe', for 'review[ing] the methods and incentives of economic management', with a view of 'bring[ing] company activity and national economic interests closer together.'[351] Under Nyers' leadership an informal 'brain trust' (*agytröszt*) had been established in late 1963, with the aim of putting forward proposals for economic reform.[352] Comprised of twelve members, this group represented, as Berend notes, 'an institutional link of a new kind between economists, theoretical and practical, on the one hand and party and governmental direction of the economy on the other.'[353] Having received the blessing of the party leadership, Nyers deliberately sought to include supporters of market reform, both from within *and* outside the MSZMP, in his team. Hence, his working group included such renowned reform economists as Tibor Liska, the previously mentioned János Kornai, and Márton Tardos, as well as leading proponents of economic reform within the ruling MSZMP, including György Aczél, the regime's chief cultural ideologist, Jenő Fock, the Deputy Prime Minister, and István Hetényi, an economist who worked for the OT and who would later serve as Minister of Finance in the 1980s.

Under Nyers' leadership, eleven commissions were set up to examine different aspects of the proposed reform programme, including central planning, investment, the price and wage system, credit and monetary policy, and cooperation between CMEA countries, with each commission providing recommendations for their subject area. More than 200 experts were involved in the immediate work of the commissions, while many more were indirectly involved. Within this circle of experts, a specific circle of 'reform intellectuals'[354] (*reformértelmiség*) developed, which, as we shall see in the next chapter, would go on to reconstitute itself through the academia in the following decades. However,

---

351 Nyers 1964, here cited in Berend, *The Hungarian Economic Reforms, 1957-1990*, p. 137.

352 Swain and Swain, *Eastern Europe since 194*5, p. 135; Rudolf Tőkés, *Hungary's negotiated revolution: economic reform, social change, and political succession, 1957-1990*, Cambridge: Cambridge University Press, 1996, p. 95.

353 Berend, op. cit., p. 139.

354 Interview with Z.M.P on 21 December 2011.

in stark opposition to the first wave of Hungarian reforms, this group generally worked in cooperation with the party leadership. Moreover, the composition of the reformers had also changed: whereas the first generation of reformers, involved in the works on the New Course a decade earlier, had largely consisted of journalists and writers, those involved in the preparation of the NEM were primarily economists, with a smaller part coming from other fields within the social sciences.[355] Nyers and his reform-minded party members were largely left in charge with negotiating with the party leadership.[356]

In developing their reform programme, the Hungarian reformers did not have to start from scratch. For one thing, Hungarian reformers could build on the reform proposals that had been around the time of Imre Nagy's New Course. Key texts, such as Péter's 'On the importance and significance of economic efficiency and profitability in the plan-based management of the economy'[357], or Kornai's 'Overcentralisation in Economic Administration'[358], had survived the ideological freeze that followed the crushing of the revolution. Furthermore, Liska's seminal article, 'Critique and Conception' (*Kritika és Koncepció*), which provided a comprehensive critique of the price system and the economic mechanism, whilst proposing – amongst others – a transition to world market prices (an idea that continued to tickle the thoughts of Hungarian reform economists up until the late 1980s), had been published in *Közgazdasági Szemle* in 1963.[359] In addition, Hungarian economic research was also well integrated in the international epistemic community, thus enabling reformers to draw upon the insights of reform economists elsewhere.[360] Neoclassical economics – in which Hungarian reform economists were well equipped – provided reform economists with a *lingua franca*, which enabled them to transcend the physical and ideological barriers erected during the Cold War.[361] The famous

[355] The working group involved in the preparation of the NEM included such renowned reform economists as István Hetényi, Tibor Liska, János Kornai, and Márton Tardos.
[356] For a summary of the organisational work behind the NEM, see János Rainer, *Magyarország története. A Kádár-korszak 1956–1989*, Budapest: Kossuth Kiadó, 2010, pp. 40-44.
[357] Péter, 'A gazdaságosság jelentőségéről és szerepéről'.
[358] Kornai, *Over-centralization in Economic Administration*.
[359] Liska originally wrote the article in 1959. A critical engagement with his proposals on socialist entrepreneurship, including comments from leading reform economists, (amongst them Bokros, Kornai, Nyers, Tardos) was published in 1985 as *Koncepció és Kritika*. *Vita Liska Tibor 'szocialista vállalkozási szektor' javaslatáról*, Magvető Kiadó: Budapest.
[360] As Csaba (here cited in 'Economics: Hungary') notes, '[o]ne of the true paradoxes of Hungarian economic thought is … how little true Marxism … shaped *research output* in the period under scrutiny.'
[361] Aligica and Evans, *The Neoliberal Revolution in Eastern Europe*; Glen Biglaiser, *Guardians of the Nation? Economists, Generals, and Economic Reform in Latin America.* Notre Dame, IN: University of Notre Dame Press, 2002; Bockman, *Markets in the Name of Socialism*; Csaba, 'Economics: Hungary'; Bruce Kogut and J. Muir MacPherson 2007, 'The Decision to Privatize: Economists and the Construction of Ideas

work of the Polish reform economist Wlodzimierz Brus, *The General Problems of the Functioning of the Socialist Economy* (1961),[362] which sought to explain how to build a 'market mechanism' into a planned economy, was highly influential on Hungarian reformers in the mid-1960s.[363] Moreover, Hungary's relative openness within the Soviet bloc enabled Hungarian reform economists to study and work in the West, and gain access to key works of Western contemporary economic schools, including the works of Keynes, and, later on, Milton Friedman, James Tobin, John Hicks, and Theodore Schultz.[364] In 1964 Hungarian economists began receiving Ford Foundation fellowships to conduct research and study, usually lasting ten months, in the US. In particular, Hungarian economists chose to visit universities where there were specialists in neoclassical economics with knowledge of the Soviet-style economies of Eastern Europe (e.g. Harvard, Yale, Columbia, Berkeley, and Stanford).[365] As Johanna Bockman has pointed out, the combined effect of these developments was that, in applied fields, like finance, management and marketing, neoclassical economics set the standards long before the collapse of the Soviet bloc.[366]

When the NEM finally came into effect on 1 January 1968, it brought significant changes in four key areas.[367] To begin with, it provided greater autonomy to enterprises with regard to the allocation of resources for production and investment. Albeit within limits, this reduced the role of centralised planning and resource allocation in the economy, encouraging enterprises to keep up with market demands. Second, prices were granted a more active role in the economy, in order to reflect world market values, although state control of agricultural products, consumer goods, and domestic raw materials remained strong to counterbalance inflation. As a result, prices of raw materials increased sharply.

---

and Policies', in *The Global Diffusion of Markets and Democracy,* edited by Beth A. Simmons, Frank Dobbin, and Geoffrey Garrett, Cambridge: Cambridge University Press, 2007, pp. 104-140. As Bockman (here cited in *Markets in the Name of Socialism*, pp. 126-7) notes, reform economists in the Soviet-style countries 'shared a training in neoclassical economics that provided both analytical and normative tools for socialism, as well as a common guage for a regional discussion of reform.'

[362] Wlodzmierz Brus, *The General Problems of the Functioning of the Socialist Economy*, Warsaw: PWN, 1961.

[363] László Szamuely, A Magyar közgazdaśagi gondolat fejlődése, 1954-1978: a szocialista gazdaság mechanizmusának kutatása, Budapest: Közgazdasági és Jogi Könyvkiadó, 1986, pp. 266, 307.

[364] Csaba, 'Economics: Hungary'.

[365] Bockman*, Markets in the Name of Socialism*, p. 128.

[366] Ibid.; Csaba, op. cit.

[367] For an overview, see Bianca L. Adair, 'Interest Articulation in Communist Regimes: the New Economic Mechanism in Hungary, 1962-1980', *East European Quarterly,* 2003, Vol. 37, No. 1, pp. 112-113; Paul Hare, Hugo Radice and Nigel Swain (eds.) 1981, *Hungary, a Decade of Economic Reform,* London: Allen & Unwin, 1981; Romsics, *Hungary in the Twentieth Century*, pp. 346-348.

Third, the wage system was redesigned in order to promote efficiency and productivity growth in the workplaces, while legal restrictions on the movement of labour were restricted, providing enterprise managers with greater access to workers that fitted the 'needs' of the firm. Fourth, and finally, the NEM explicitly encouraged further re-integration with the capitalist world economy, through the mechanism of foreign trade. Enterprises were given rights to engage in foreign trade without the usual requirement that the Ministry of Foreign Trade served as an intermediary and in 1972 a law permitting joint ventures between Western multinationals and Hungarian state-owned enterprises was passed.[368] Through these measures, policymakers in Budapest hoped that the structure of the Hungarian economy would approximate more closely to 'capitalist' economies in the West, thereby leading to improvements in efficiency, productivity growth, and higher living standards.

In order to promote the NEM to wider sections of Hungarian society, the Kádár regime launched a veritable ideological offensive. In May 1966, the MSZMP's Agitation and Propaganda Committee passed a motion, which stated:

> Our chief propaganda task is to acquaint our whole society with the reform of the economic mechanism and make it accepted to *reinforce an economic attitude at every level*, to make the substance of the economic processes embodying the essence of the economic reform known, along with the part to be played by the reform in fulfilling the assignments of our economic development … One chief task is to explain and convince people how the reform assists and serves the purposes of the current assignments in the building of socialism … to prove … that in all fields the reform will strengthen the socialist economy and socialist relations and further increase the democratisation of our society … Accomplishment of the propaganda tasks … requires that swift use should be made of the advances of in economic theory and that the teaching of the political economy of socialism should be updated in its substance and methodology. The Agitation and Propaganda Department should take steps to ensure that the results of the theoretical researches done by the Institute for Social Sciences and by the Academy of Sciences are swiftly included in economic propaganda.[369]

[368] Philipp Fink, 'FDI-led Growth and Rising Polarisations in Hungary: Quantity at the Expense of Quality', *New Political Economy*, 2006, Vol. 11, No. 1, p. 56.
[369] *PIA*, 288.f.41/1966/59, Minutes of the 1 June 1996 Meeting of the Agitation and Propaganda Committee of the MSZMP Central Committee, Proposal on the Tasks in the Reform of the Economic Mechanism and the Propaganda for the Third Five-Year Plan, 26 May 1966 (my emphasis).

In the autumn of 1966, a confidential report on the preparatory operations wrote of how two to four week-long courses were being prepared for 'several thousand functionaries (county, factory and cooperative party secretaries, council leaders and leaders of mass organisations, etc.) In 1967 in different courses and seminars, around 300,000 people will study the fundamental issues of the reform.'[370] The importance to 'inform and win over all the leading officials working in the state economy … the party organisations and the trade unions' was reaffirmed by Kádár at a meeting of the Central Committee in November 1967. As he frankly pointed out, 'The nature of economic planning is such that, apart from two-three hundred thousand leading officials, the working millions will not be able to exert any direct influence on it [the reform of the economic mechanism].'[371]

However, whilst the NEM proposed far-reaching economic reforms to the Hungarian economy, the party-state made it clear that the political changes were to be *limited*. To persuade his sceptics, Nyers laboriously explained that the party cadres would not be replaced with experts and the enterprises would not be 'self-managed', Yugoslav-style, but run by approved directors. By preserving the system of overall state regulation, 'no concessions will be made to the spontaneity of the market.'[372] This point was reaffirmed by an editorial in *Népszabadság*, the official party paper, in late 1966: 'The party's position is clear: *the reform of the mechanism does not amount to any kind of changing of the guard. For that there is no need at all!* … In general, staff changes will only be necessary where the time for such a change has long been ripe in any case.'[373]

The Reform Comes to a Temporary Halt

In the initial stages, the NEM seemed to fulfil its objective. Compared with the average annual rises of 4.1 percent experienced in the period between 1961-1965, Hungarian national income increased at an impressive rate of 6.8 percent per year between 1966-1970 and continued to grow at 6.6 percent annually between 1971-1975.[374] As a result of these changes, figures by Paul Bairoch showed that Hungary's per capita GNP in 1973 stood at

---

[370] *PIA,* 288.f.11/1966/63, Briefing on the Preparatory Work for the Reform of the Economic Mechanism among the Party Membership, 10 November 1966.
[371] János Kádár, *Válogatott beszédek és cikkek*, *1957-1974*, p. 243.
[372] Nyers 1965, here cited in Tőkés, *Hungary's negotiated revolution*, p. 95.
[373] István Földes, 'A tennikészek, az aggódók és a csodavárók', *Népszabadság*, 25 December 1966.
[374] Rainer, *Bevezetés a Kádárizmusba*, p. 180. A somewhat lower rate of growth (6.3 percent) is registered by Romsics, *Hungary in the Twentieth Century*, p. 348.

89 percent of the European average – well ahead of its position in 1913 (69 percent) and its peak in the inter-war years (74 percent).[375] One of the key beneficiaries of the reform was agriculture, which now became somewhat of a 'success story' of Hungarian state capitalism. In this regard, the example of the Bábolna State Farm is telling: exploiting the opportunities that had opened up in the new, relatively liberal economic climate, it purchased a license to use American technology for 'closed-system maize cultivation'. The initial trial, which began in 1970, proved to be a success and, by 1975, 20 percent of the Hungary's arable land was being cultivated following such scientific methods. As a result of these changes, Hungarian agriculture was rapidly catching up, and in some regards even overtaking, world leaders.[376]

The apparent success of the Hungarian reforms attracted interest from other reform-minded economists in Eastern Europe, as well as the West. One Western commentator summed up the positive mood at the time as follows: 'It [the NEM] clearly represents the most radical postwar change, in the economic system of any COMECON country, which has been maintained over a period of years and gives promise of continuity.'[377] US policymakers expressed similarly favourable comments, arguing that the NEM represented 'the most interesting, most successful, and most obvious example within the Warsaw Pact countries of internal modification of the basic Soviet politico-economic model.' As the document went on to note, 'The business minded and trade-oriented Hungarians (trade is 35% of GNP) have given a high priority to achieving more market oriented production through greater enterprise latitude and flexibility.'[378] However, despite these accolades, the Hungarian market reforms were facing a variety of pressures.

First, there was growing criticism amongst Stalinist hardliners against the perceived decline of 'socialist values' and the growth of 'petty bourgeois attitudes', 'individualism', and 'craving for material possessions', following the introduction of the NEM.[379]

---

[375] Paul Bairoch, 'Geographical Structure and Trade Balance of European Foreign Trade from 1800 to 1970', *Journal of European Economic History,* 1974, Vol. 3, No. 3, pp. 557-608. Drawing on World Bank data, Berend and Ránki (in *The Hungarian Economy in the Twentieth Century*, p. 291) come to similar conclusions.

[376] Romsics, *Hungary in the Twentieth Century*, pp. 349-351.

[377] David Granick, 'The Hungarian Economic Reform', *World Politics*, 1973, Vol. 25, No. 3, p. 414.

[378] James E. Miller, Douglas E. Selvage and Laurie Van Hook (eds.), *Foreign Relations of the United States, 1969-1976. Volume XXIX: Eastern Europe, Eastern Mediterranean, 1969–1972*, Washington, DC: United States Government Printing Office, 2008, Document 26.

[379] Romsics, op. cit, p. 354. The central actors promoting the halting of the NEM are discussed in detail in Adair, 'Interest Articulation in Communist Regimes', pp. 115-121; Judy Batt, *Economic Reform and*

According to Romsics, this 'anti-reform camp' included conservative sections of the ruling MSZMP, the heads of some of the big state enterprises, and the leaders of the trade union bureaucracy.[380] For example, a report to the Political Committee in September 1972 warned that: '[g]reat attention must be devoted to revealing the new or strengthening negative phenomena in society … and stepping up the battle … to curb them.'[381]

A second source of opposition came from Hungarian workers, who were frustrated over growing income differentials, escalating prices, and increasing overtime work. Following the introduction of the NEM, wages became more differentiated, increasing from a 1:3 ratio to a difference of 1:9 between the top and bottom categories.[382] As result, one report by the MSZMP Central Committee in 1970 noted that many workers 'spoke [negatively] of the leading role of the intelligentsia, and some that management are a "new class"'.[383] This echoed a theme that would become increasingly popular amongst academics in the East and West alike from the late 1960s and onwards, which argued that a 'new class' – comprised by technocratic managers, the new politocracy, and intellectuals – was replacing the bourgeoisie as the dominant class in 'post-industrial' societies.[384]

Thirdly, Hungarian reformers were also facing increasing external pressure, mainly from the Soviet Union, but also from other 'fraternal states' in the Soviet bloc, such as Bulgaria, Czechoslovakia, the GDR, who were complaining about the NEM's perceived 'negative effects' on the 'political and ideological unity of the socialist camp'.[385] In particular, Moscow's influence on the fate of the Hungarian reforms should not be underestimated. Although Moscow had initially greeted the introduction of the NEM, its position had shifted by early 1970s, reflecting the conservative turn in policymaking under Leonid Brezhnev. According to the Brezhnev Doctrine, which had been announced to retroactively justify Soviet intervention in Hungary in 1956 and Czechoslovakia in 1968, no country

---

Political Change in Eastern Europe, New York, NY: St. Martin's Press, 1988, pp. 267-275; Berend, *The Hungarian Economic Reforms, 1957-1990*, pp. 201-231

380 Romsics, *Hungary in the Twentieth Century*, p. 354.

381 Berend, *The Hungarian Economic Reforms, 1957-1990*, p. 201.

382 Berend and Ránki, *The Hungarian Economy in the Twentieth Century*, p. 244.

383 MSZMP 1970, cited in Henrik Vass (ed), *A Magyar Szocialista Munkáspárt határozatai és dokumentumai 1967-1970,* Budapest: Kossuth Könyvkiadó, 1974, p. 462.

384 Milovan Djilas, *The New Class: An Analysis of the Communist System.* London: Thames and Hudson, 1957; Gil Eyal et al., 'The Theory of Post-Communist Managerialism'; Alvin W. Gouldner, *The Future of Intellectuals and the Rise of the New Class,* New York, NY: Seabury Press, 1979. For a historical overview of 'new class theory', see Iván Szelényi and Bill Martin, 'The Three Waves of New Class Theories", *Theory and Society,* 1988, Vol. 17, No. 5, pp. 645-667.

385 Tőkés, *Hungary's negotiated revolution*, p. 102.

was allowed to compromise the cohesiveness of the Soviet bloc. And the leadership in Moscow was not pleased with the increasing liberalisation that was taking place in Budapest. As Károly Németh, a Politburo member and first secretary of the Budapest party committee, later recalled, by 1969 the 'Soviets were banging on the table' protesting about the ideological confusion to which the NEM had given rise in Hungary.[386] When Kádár paid an official visit to Moscow in February 1972, he was reportedly 'severely taken to task by his hosts, Brezhnev included, being berated for the hold that petty-bourgeois notions had gained in Hungary, the return of small-capitalist conditions in agriculture, lack of concern for social justice, and general lack of vigilance.'[387] The writing was now on the wall, and at the meeting of the MSZMP Central Committee in November 1972, the decision was taken to slow down market reforms and instead focus on economic stability.[388] As a result, a number of important market reforms were repealed between 1972-1978: entrepreneurship and 'bourgeois tendencies of profit-making' was discouraged, while a re-centralisation drive was launched and 'socialist work competition' was revived.[389]

As the Kádár regime officially distanced itself from the NEM, its architects within and outside the ruling MSZMP were forced onto the defensive. In the spring of 1974, Nyers was dismissed from his position in the MSZMP Secretariat, while one year later, at the 11th Party Congress; he lost his seat in the Politburo. Following the resignation of his closest political ally, Fock resigned from his post as Prime Minister, but retained his seat in the Politburo for another term. They were replaced by 'hardliners' loyal to Kádár, including Károly Németh as Secretary for Economic Affairs in the Central Committee, György Lázár as Prime Minister, and Ferenc Havasi as Deputy Prime Minister.[390] As for the 'great generation' of Hungarian reform economists that had participated in the preparation of the NEM, most of them decided to 'abandon politics', seeking refuge in the relative safety of

---

[386] Németh, here cited in Tőkés, *Hungary's negotiated revolution*, p. 104.
[387] Romsics, *Hungary in the Twentieth Century,* p. 354. See also Tőkés, *Hungary's negotiated revolution*, p. 104.
[388] Adair, 'Interest Articulation in Communist Regimes', p. 118; Berend, *The Hungarian Economic Reforms, 1957-1990*, p. 206.
[389] Adair, op. cit., pp. 118-119; Berend and Ránki, *The Hungarian Economy in the Twentieth Century*, pp. 245-246; Swain, *Hungary: The Rise and Fall of Feasible Socialism*, pp. 115-123.
[390] Adair, op. cit., pp. 119-120; Romsics, op.cit., p. 354; Tőkés, op. cit., p. 107.

academia or in various party-sponsored research institutions, where they could sharpen their ideas until the next great reformist opportunity arrived.[391]

Deepening Crisis and the Transition of the 1980s

As we pointed out in the previous section, the Kádár regime was built upon a fragile 'social contract' (not dissimilar from the 'Keynesian compromise' in the West), which offered workers and ordinary Hungarians the prospect of full employment, continuously growing living standards, and relative political freedom, in return for increasing productivity and economic growth. However, as we shall demonstrate in this section, all this was increasingly called into question following the onset of the global economic crisis in 1973.

Caught between the State and the Market: The State Capitalist Economies and the Global Economic Crisis of the 1970s

The global economic crisis that began in 1973 brought an end to the 'golden age' of capitalism and presented leaders on both sides of the Iron Curtain with a gloomy picture of overproduction, lower returns on investments, the threat of mass unemployment and renewed working class resistance. Following old habits, capital sought to respond to the crisis by spurring a Darwinian process of 'creative destruction', allowing unprofitable units of capital – the firms within the system – to go bust, while those surviving were supposed to provide the basis for a new cycle of economic growth. However, as we noted in section 2, the capitalist world economy had undergone significant changes during the years of the post-World War II boom, with the units of capital within the system becoming larger through processes that Marx described as 'concentration' (the gradual accumulation of capital) and 'centralisation' (mergers and takeovers).[392] Moreover, tense geopolitical

---

[391] Amongst the reform economists mentioned above, Liska returned to the Karl Marx University of Budapest, researching questions related to convertibility, the tertiary sector, and balance of payment problems. In 1978, he went on to become the head of the Enterprise Research Group [*Vállalkozáskutató Csoport*], where he later developed the theory of 'socialist entrepreneurship'. Kornai joined the Institute of Economics of the Hungarian Academy of Sciences (HAS) in 1967, as head of the economic regulation department. Gaining reputation as a foremost critic of the Soviet-style economies, he travelled extensively abroad in the 1970s, working as a visiting professor at Yale (1970), Princeton (1972), Stanford (1973), and Stockholm (1976-1977), while also serving as the vice president of the United Nations Development Planning Committee (1972-1977). Tardos remained in the National Market Research Institute until 1980, when he moved on to work at the HAS.

[392] Marx, *Capital. Volume 1*, pp. 775-780, 804.

rivalry between East and West further discouraged world leaders from allowing capital to be destroyed to a sufficient degree. As Joseph Choonara explains, this meant that 'the very mechanism that clears out the system and restores it for a time to some level of health – economic crisis – had become more dangerous for the system.'[393] The system was in other words becoming 'too big to fail'.

As a result, other solutions thus had to be invented to solve the crisis. In the West, the answer was to turn to neoliberal policies in an attempt to create what David Harvey has described as a 'spatial fix',[394] which sought to overcome the problems of falling profit rates by moving capital and labour to new areas where it was cheaper to produce them ('outsourcing'), while at the same time seeking to open up new market for capital accumulation (ushering in the processes commonly recognised today under the rubric of 'financialisation'). The implementation of these policies was, however, not automatic, but relied on active support from the state.

In the East, the global economic crisis of the 1970s brought the Soviet-style state capitalist economies face to face with their own internal contradictions and the grim realities of the world market. On the one hand, the state capitalist economies remained geared in favour of heavy industry over specialisation in goods and services. As Haynes points out, this meant that the state capitalist economies 'developed over-large industrial sectors which gave them the base for military and great power competition, but which made little sense from the view of the world market as a whole.'[395] On the other hand, pressures to comply with Soviet interests meant that integration with the world economy through trade of commodities and services remained relatively limited and was, as Dale points out, 'compounded by non-convertible currencies, and by treatment by the major Western states as "least favoured nations".'[396] This combination was to prove fatal at a time of a general slowdown of capital accumulation in the world economy.

[393] Joseph Choonara, 'Marxist accounts of the crisis', *International Socialism*, 2009, No. 123, p. 103.
[394] David Harvey, *The new imperialism*, Oxford: Oxford University Press, 2003, chapter 4, and *id.*, *Spaces of Global Capitalism. Towards a Theory of Uneven Geographical Development*, London: Verso, 2006, pp. 41-50.
[395] Haynes, 'Class and Crisis...', p. 50.
[396] Dale, 'Introduction: The Transition in Central and Eastern Europe', p. 3.

When the crisis hit in 1973, the initial response by leaders of the Soviet bloc was that it would be 'stopped at our borders'.[397] This policy soon became untenable, however, as the effects of crisis became increasingly felt within the Soviet bloc. As a result, the leaders of the one-party regimes decided to bow to the pressures of capital – what Trotsky had described as the 'whip of external necessity'[398] – and gradually abandoned central planning in favour of the market and greater integration with the capitalist world economy. This was to be achieved by importing advanced machinery and technology from the West, which was to be financed through loans from Western states, private banks, and international financial institutions.[399] According to the plan, advanced Western technology would lead to productivity gains and expand production of industrial and agricultural goods, thereby enabling Western loans to be repaid. The Kádár regime supported this strategy, as it believed that foreign loans and Western technology would enable the Hungarian political economy to overcome its sclerotic characteristics, while, at the same time, enable the regime to refrain from pursuing more restrictive reforms as were being implemented by many governments in the West. In fact, Hungary became a regional forerunner, with its imports from the West growing faster than those from other Soviet bloc states in the period between 1976-1980.[400] However, the rise in imports from the West meant that the debt burden of the Hungarian economy increased significantly from the early 1970s onwards.[401]

By the end of the 1970s, however, the benefits of opening up to the capitalist world economy through technology transfers and foreign loans were becoming much less obvious. The global economic crisis was accompanied by rising interest rates, but prevented a similar rise of export prices.[402] And the problems of the Soviet bloc economies were compounded by the unilateral decision of US Federal Reserve Chairman Paul Volcker to increase interest rates sharply in 1979 (also known as the 'Volcker shock') and

[397] A similar position was maintained by the renowned Marxist political economist Ernest Mandel, who, as late as 1975, argued that 'while the recession is hitting all the capitalist economies, the countries with non-capitalist economies are escaping the overall effects of the recession'. Cited in Ernest Mandel, *Late Capitalism,* London: Humanities Press, 1975.
[398] Leon Trotsky, *The History of the Russian Revolution*, London: Pluto Press, [1934]/1977, p. 27.
[399] Aldcroft and Morewood, *Economic Change in Eastern Europe since 1918*, p. 157.
[400] András Köves, *The CMEA Countries in the World Economy: Turning Inwards or Turning Outwards*, Budapest: Akadémiai Kiadó, 1985, p. 101.
[401] Aldcroft and Morewood, op.cit., p. 161; Janos, *East Central Europe in the Modern World*, p. 293; Marie Lavigne, *International Political Economy and Socialism,* Cambridge: Cambridge University Press, 1991, Table 20, p. 324.
[402] As Berend and Ránki (in *The Hungarian Economy in the Twentieth Century*, p. 282) point out with regard to Hungary, import prices increased by 70 percent (while export prices increased by much less) in the first five years after the onset of the crisis.

the Reagan administration's politically motivated decision to restrict credit to the East. As a result, credit was drying up on international financial markets, eventually leaving the Kádár regime faced with a severe liquidity crunch in the spring of 1982, which was eventually only averted through the provision of loans from Western banks and the IMF and the World Bank (which Hungary had officially joined in May 1982).[403]

By the early 1980s, the dark clouds that had been gathering above the Soviet bloc in the 1970s were developing into full-blown storms, as official figures showed that economic growth was rapidly coming to a halt. According to official figures, average annual economic growth in the Soviet Union was down from 5.1 percent in the period between 1971-1975 to 3.7 percent between 1976-1980.[404] In the case of Hungary, which was still treated by some pro-market Western commentators as the 'miracle economy'[405] of Eastern Europe in the early 1980s, the decline of economic growth was more pronounced: down from 6.6 percent in 1971-1975 to only 2.9 percent between 1976-1980.[406] While the situation was not as bad as in Poland, where the economic crisis had descended into a full blown political crisis, which was only overcome following General Jaruzelski's imposition of martial law in December 1981[407], the Hungarian economy showed no signs of improvement in the first half of the 1980s. Between 1981-1985 gross investment fell by 3.1 percent and national income only grew by a meagre 1.6 percent per year.[408] Thus, far from 'catching up and overtaking' the advanced capitalist economies in the West, the economies of the Soviet bloc were beginning to fall behind. Meanwhile, domestic discontent was also brewing as real wages were declining (despite an increase in overtime work), forcing workers to turn to the mushrooming 'second economy' in order to maintain their living standards.[409] Moreover, external pressures (resulting from the Reagan

[403] Bartlett, *The Political Economy of Dual Transitions*, pp. 55-57; Lavigne, op. cit., pp. 319-321, 345-347.
[404] Lavigne, *International Political Economy and Socialism*, p. 386; World Bank *Hungary: Economic Developments and Reforms*, Washington, DC: World Bank, 1984.
[405] Alec Nove, *The Economics of Feasible Socialism,* Boston, MA: G Allen & Unwin, 1983.
[406] Rainer, *Bevezetés a Kádárizmusba*, p. 180; Lavigne, op. cit., pp. 386-387.
[407] On the Polish crisis, see Colin Barker, *Festival of the Oppressed: Solidarity, Reform and Revolution in Poland 1980-81*, London: Bookmarks, 1986; Timothy Garton Ash, *The Polish Revolution: Solidarity, 1980-1982*, London: Granta Books. 1991; Harman, *Class Struggles in Eastern Europe*, pp. 245-318; David Ost, *Solidarity and the Politics of Anti-politics: Opposition and Reform in Poland since 1968*, Philadelphia, PA: Temple University Press, 1990.
[408] Lavigne, op. cit., pp. 386-387.
[409] Mark Pittaway, 'Accomodation and the Limits of Economic Reform: Industrial Workers during the Making and Unmaking of Kádár's Hungary', in *Arbeiter im Staatsozialismus: Ideologische Anspruch und Soziale Wirklichkeit*, edited by Peter Hübner, Christoph Kleβmann, and Claus Tenfelde, Köln, Böhlau Verlag, 2005, pp. 453-471. The extent of overtime work performed by factory workers was substantial by the end of the decade: according to Héthy's calculations 34.8 percent of workers regularly performed it in 1979.

administration's unilateral decision to reassert US hegemony by increasing arms spending and spiralling foreign debt) added to the problems facing policymakers in Hungary and elsewhere in the Soviet bloc.

All this was bad news for the leaders of Soviet bloc regimes, who found themselves increasingly incapable of uphold their fragile 'social contracts' under these circumstances. As Harman explains:

> By 1981, the choice between maintaining the closed economy and opening up to the rest of the world was indeed the choice between the frying pan and the fire. The first option meant deepening stagnation, growing waste, an inability to satisfy the demands of the mass of the population, and the continual danger of working class rebellion. The second option meant binding oneself into the rhythm of a world economy increasingly prone to stagnation and recession – and giving up the administrative means to stop recession involving contraction of the domestic economy. That is why the Polish crisis of 1980-81 was so traumatic for all the rulers of Eastern Europe. It proved that there was no easy solution to the problems besetting every state.[410]

As we shall see in the next section, the Kádár regime eventually opted for the second option, seeking further (re-)integration with the world economy, through the pursuit of macroeconomic stabilisation and structural adjustment.

'The Storm Breaks'

By the mid-1980s the symptoms of the crisis were becoming more visible than ever. In the Soviet Union, official figures, published in 1986, showed that the Soviet economy had been suffering from 'stagnation' for some years.[411] The situation was hardly any better in

---

See Lajos Héthy, 'Új vonások a vállalati munkaügyi kapcsolatokban', *Társadalmi Szemle,* 1984, Vol. 49, pp. 66-67. At the same time, participation in the semi-legal second economy was becoming increasingly widespread. According to Szelényi (here cited in 'Eastern Europe in an Epoch of Trenasition: Toward a Socialist Mixed Economy?', in *Remaking the Economic Institutions of Socialism: China and Eastern Europe*, edited by Victor Nee and David Stark, Standford, CA: Stanford University Press, 1989, p. 220), by the mid-1980s as much as 70 percent of all households in Hungary earned incomes from the second economy, with one-fifth of the income earners receiving between one-third or up to half of their incomes from the private sector. For detailed analysis on the second economy in Hungary, see Péter Galasi and István Gábor, *A 'második' gazdaság. Tények és hipotézisek.* Budapest: Közgazdasági és Jogi Könyv-kiadó, 1982; István Kemény, 'A nem regisztrált gazdaság Magyarországon', in *Szociológiai írások*, edited by *id*., Budapest: Replika Kör, 1992, pp. 219-252.

[410] Harman, *Class Struggles in Eastern Europe*, p. 332.

[411] Harman, *Zombie Capitalism*, p. 203.

Hungary, where official figures showed that economic growth had decelerated by 1 percent in 1985. Making matters worse, Hungary's external debt was increasing at record rates (see table below), while both the balance of payments deficit and the budget deficit seemed untenable.[412]

Table 3.3. The growing debt burden of the Soviet bloc (in US$ billions)[413]

	1985	**1986**	**1987**	**1988**	**1989**	**1990**
Bulgaria	1.6	3.6	5.1	6.1	8.0	9.8
Czechoslovakia	3.6	4.3	5.1	5.6	5.7	6.3
Hungary	*11.5*	*14.7*	*18.1*	*18.2*	*19.4*	*20.3*
Poland	28.2	31.9	35.8	34.1	37.5	41.8
Romania	6.5	6.3	5.3	2.0	-1.3	1.3
Soviet Union	15.8	16.6	25.1	27.7	39.3	43.4
Total	**67.3**	**77.5**	**94.3**	**93.8**	**108.9**	**122.9**

Drawing inspiration from Gorbachev's economic reforms (*perestroika*), the Kádár regime launched a new wave of market reforms from 1986 and onwards, which included the gradual liberalisation of trade, decentralisation and greater independence for managers of state enterprises with regard to investment and the hiring and firing workers, and the introduction of further market reforms. In July 1987, the government, now headed by Károly Grósz, the 'favorite son'[414] of the MSZMP apparatus and perceived as a 'devoted reformer'[415] by Western commentators, unveiled a new set of reforms, which aimed at curbing Hungary's foreign debt through the introduction of a number of austerity measures, while at the same time, increasing the productivity of state enterprises and workers alike. As a result, state funding to local councils was cut by HUF 1,5 billion, equal to 2 percent of the government's budget. Simultaneously, the price of bread and bakery products was increased by an average of 19 percent; gasoline and diesel prices augmented by 10 percent; cigarette prices by 20 percent; and household energy prices rose on average by 20 percent. As a result, the price of bread, which 'has a symbolic place among

[412] Földes, *Az eladósodás politikatörténete*, p. 243.
[413] Source: Lavigne, *International Political Economy and Socialism*, p. 324.
[414] Tőkés, *Hungary's negotiated revolution*, p. 274.
[415] Andor, *Hungary on the Road to the European Union*, p. 20.

Hungarian food products', had risen almost threefold since 1970.[416] In addition, the Grósz government also passed a banking reform, which established a Western-style two-tier banking system that separated commercial banking functions from the MNB. One year later, the MSZMP Central Committee accepted a wide-sweeping liberalisation plan, which reduced state-subsidies by HUF 32-35 billion and ended controls on nearly 70 percent of consumer prices and 35-40 percent of convertible currency imports, while a personal income tax and value added tax was introduced. Also, the *Law on Business Organisations*, enabling the creation of private joint stock companies and private ownership of shares in these companies by private citizens, and the *Law on Foreign Investment* was passed and came into force on 1 January 1989. According to Swain, these laws brought fundamental changes to the Hungarian economy, and the wider society:

> The company law, in a fundamental sense, can be seen as having reintroduced capitalist – certainly embryonic capitalist – relations into Hungary in two ways. First, it conceded the principle that natural and legal persons could own, buy and sell shares in the means of production, distribution and exchange. Second, less abstractly, it was the legislation that was actually used throughout 1989 and 1990 for both piecemeal, spontaneous and state-initiated privatization. If the company law permitted the development of domestic capitalism, the law on foreign investments permitted foreign capitalists to repatriate their profits, and do so on very generous terms.[417]

But the attempts to shake up the economy showed no signs of working. Instead, as the economic crisis intensified, it turned into a political and social crisis. Public opinion surveys carried out in the period between 1981-1988 showed a dramatic decline in the public's perception about the general quality of life and a growing lack of trust in the Kádár regime's ability to solve the country's economic problems. Particularly noteworthy was the dissatisfaction with inflation (with a 60 percent increase in dissatisfaction among respondents), the quality of the public health system (53 percent increase in dissatisfaction), the lack of housing (47 percent increase in dissatisfaction), and the protection of workers' interests (47 percent increase in dissatisfaction), and the lack of equal opportunity (40 percent increase in dissatisfaction).[418] Another survey, carried out amongst students at the Technical University of Budapest (today the Budapest University

---

[416] While one kilogram of white bread cost 3.60 HUF in 1970, and 7.60 HUF in 1985, its new price was now 9.60 HUF. See Radio Free Europe, *RFE/RL Hungarian Situation Reports*: 'Price Increases: Old Problems and Old Solutions', 22 July 1987, p. 17.
[417] Swain, *Hungary: The Rise and Fall of Feasible Socialism*, p. 10.
[418] Romsics, *Hungary in the Twentieth Century*, pp. 412-413; Swain, op. cit., pp. 12-16

of Technology and Economics), told a similar story: while 61 percent of the students in 1983 believed that the MSZMP would win a majority in a free election and 70 percent had an optimistic view of the future for socialism, by 1988 the ratios had dropped to 25 and 37 percent respectively.[419] By 1988, the signs of the MSZP's internal crisis were becoming increasingly evident: membership diminished by seven percent in the first half of that year, while amongst those members that remained, there was a growing tendency to follow subjective interests, instead of those of the party as a whole, resulting in growing problems of corruption within the party.[420] Figures like were arguably indicative of what Gramsci described as an 'organic crisis', which extends beyond the 'normal' problems of capital accumulation ('conjunctural crisis'), to become a 'crisis of hegemony' of the ruling class, or a 'general crisis of the State.'[421] Gramsci emphasised that these contradictions could 'sometimes protract themselves for tens of years … since no social formation will ever admit that it has been superseded.'[422] Society thus finds itself at an impasse, in which 'the old is dying [while] the new cannot be born; in this interregnum a great variety of morbid symptoms appear.'[423]

As the organic crisis of the Kádár regime intensified, there were increasing demands, both from wider sections of Hungarian society, as well as within the ruling MSZMP, for reform. Initially, the expression of old grievances and discontent with the deteriorating economic situation was limited to two camps of opposition intellectuals – the first, 'democratic' camp, which drew on liberal political thought and attracted most of its support from the urban middle class (most of whom, in Hungarian public debates at the time, were perceived to be of Jewish origin); and the second, 'national-conservative' camp, which defined itself as the heir of the 'national-popular' movement of the 1930s, and, whose supporters were predominantly perceived as coming from the rural countryside.[424] There were also calls for 'radical reforms' from a group of influential economists working for the Institute of Financial Research, the in-house research institute of the Ministry of Finance,

---

[419] Romsics, *Hungary in the Twentieth Century*, p. 413.
[420] Ripp, *Rendszerváltás Magyarországon, 1987-1990*, pp. 242-249.
[421] Gramsci, *Selections from the Prison Notebooks*, pp. 210-218, 275-276.
[422] Ibid., p. 179.
[423] Ibid., p. 276.
[424] A historic attempt to unite the two different strands of the opposition took place at the village of Monor, in the summer of 1985 (shortly after Gorbachev had assumed power in the Soviet Union), but apart from diagnosing the severity of Hungary's malaise, the conference failed to outline a plan of action for how to take the country out of its predicament. For a brief overview of the Hungarian opposition, see Romsics, op.cit., pp. 415-420. The individual contributions to the conference in Monor are collected in János Rainer (ed), *A Monori tanácskozás, 1985. június 14-16,* Budapest: 1956-os Intézet, 2005.

who argued that the only solution to Hungary's malaise was to open up the economy to the exigencies of the world economy.[425] Meanwhile, opposition intellectuals began to call for political reforms, insisting that 'Kádár must go!', and setting out a detailed programme for gradual democratisation, which included the introduction of political pluralism, freedom of speech and association, and a free press.[426] These events sparked a flurry of activity within the opposition movement. In September 1987, the country's first opposition movement was created when a group of some 150 national-conservative intellectuals founded the Hungarian Democratic Forum (MDF). An indication of the growing popularity of the opposition came when the first mass demonstration against the regime took place on 15 March 1988 (on the 140 year anniversary of the Hungarian Revolution against the Habsburg monarchy), at which demands for democracy, human rights, and national sovereignty where fused with grievances at the deteriorating social conditions experienced by the majority of the population.[427] The demonstration was rapidly followed by the establishment of two liberal opposition movements: the Alliance of Young Democrats (FIDESZ) in March 1988, and, two months later, the foundation of what became known as the Alliance of Free Democrats (SZDSZ). Following the example of the newly formed opposition movements, a number of 'historical' political parties were revived between the autumn of 1988 and spring 1989, including the FKGP, the SZDP, and the Christian Democratic People's Party (*Kereszténydemokrata Néppárt*, KDNP).[428]

While these events unfolded, there was growing confusion and conflict within the ranks of the ruling MSZMP. Reform-minded *nomenklatura* members unhappy with the course of events argued that in order to implement necessary economic reforms, the ageing party-leader, János Kádár, had to be removed. This led to an open power struggle within the MSZMP between 'conservative' bureaucrats and the 'reformers' over the control of the party.[429] The conflict within the MSZMP was finally resolved at a special party conference, convened on 20-22 May 1988, where Kádár and his closest associates were

---

[425] Antal, László, Lajos Bokros, István Csillag, László Lengyel and György Matolcsy (eds.), 'Fordulat és Reform', *Medvetánc*, 1987, No. 2, pp. 1-130. .The programme is analysed in further detail in the next chapter.
[426] Mihály Bihari, 'Reform és Demokrácia', *Medvetánc*, 1987, No. 2, pp. 165-227.
[427] Anti-government demonstrations had been taking place on 15 March as far back as in the early 1970s, however, until 1988 these demonstrations had not been able to attract any mass support within Hungarian society.
[428] On the main political parties in Hungary during the transition, see Jeffries, *Socialist economies and the transition to the market*, pp. 421-422.
[429] Described in detail in Tőkés, *Hungary's negotiated revolution*, pp. 253-304.

removed from power and replaced with a quartet of 'reform communists', comprised of Károly Grósz, Imre Pozsgay, Rezső Nyers, and Miklós Németh. As one commentator described the changes at the time, this was 'the most radical and most peaceful change of guard in a communist party leadership that has ever happened under normal conditions'.[430] By the time the special conference was over, 37 new members had joined the 108-member Central Committee. Two-thirds had only been members since 1985, and only 13 had been in the Central Committee since 1966. As Rudolf Tőkés concludes, the outcome meant that, 'For all intents and purposes, the Kádárist party had fallen apart by the end of May 1988. The apparat and the hard-core leadership were still there, but the local organizations and the counties were in total disarray.'[431]

While this political drama was unfolding, important changes were taking place within the ruling class. In the second half of the 1980s, sections of the ruling class in Eastern Europe were beginning to resort to private forms of enterprise, indulging in what has become known in the transformation literature as 'nomenklatura privatisation' or 'spontaneous privatisation'. In Hungary, this process was described in detail at the time by the Hungarian sociologist Elemér Hankiss. As he noted, 'it is not unusual today [1988] to meet a family belonging to the Kádáriste oligarchy where the father is a high ranking party or state official, the daughter owns a town centre clothes shop, the eldest son represents a Western company in Hungary, the son in law is the chairman of a recently created company or a Western bank and a grandmother owns a family hotel on the edge of Lake Balaton.'[432] While a more detailed account of this process is beyond the scope of this thesis, a brief summary of some of the methods used will serve to indicate the general process. With remarkably little resistance from 'communist' officials or wider sections of Hungarian society, state-owned assets were sold off to insiders, including managers and *nomenklatura* members. These sales were conducted on extremely favourable terms so that state enterprises were steadily stripped of their most profitable assets. The significance of this cannot be under-emphasised: members of the party ruling class realised that operating in market conditions meant that their interests lay with private capital.[433]

---

[430] Lendvai 1989, here cited in Swain, *Hungary: The Rise and Fall of Feasible Socialism*, p. 19. See also Ripp, *Rendszerváltás Magyarországon, 1987-1990*, pp. 127-137.
[431] Tőkés, *Hungary's negotiated revolution*, p. 285.
[432] Elemér Hankiss, *East European Alternatives*, Oxford: Clarendon Press, 1990.
[433] Tamás, 'Counter-revolution against a counter-revolution'.

Faced with increasing calls for 'reform', both from within Hungarian society and Western leaders, and spurred by Gorbachev's increasingly liberal policies towards the Soviet satellite states, the MSZMP leadership eventually decided to 'jump before they were pushed'.[434] In February 1989, the ruling MSZMP renounced its hegemonic role in society, and, in June in that same year, trilateral talks, known as the 'Roundtable Negotiations' (*Kerekasztaltárgyalások*), were opened between the ruling MSZMP, the opposition parties, and other interest groups over the transition from a centrally planned economy controlled by an authoritarian party-state into a market economy and parliamentary democracy.[435] At a special congress in October 1989 the MSZMP changed its name to the Hungarian Socialist Party, and, later in the month, the Hungarian Peoples' Republic was officially disbanded and transformed into a parliamentary democracy, to the joy of jubilant crowds on Kossuth Square. Hungary's more than four decades long experiment with state capitalism had thus officially come to an end.

Conclusion

In this chapter we have analysed the trajectory of the Hungarian political economy between 1945-1989, in the context of the capitalist world economy. The analysis presented in this chapter challenges dominant accounts in the literature in three important aspects. Firstly, we dismissed the claim, widely accepted as 'common sense' both in the 'transformatology' literature and popular debates, which depict Hungary and other Soviet-style economies as 'socialist', operating to a fundamentally *different* logic from those of the 'capitalist' West. Instead, we argued that it is more useful to see these societies as existing on a *continuum* of state intervention, with two extremes – Hong Kong and the Soviet Union – at opposite ends of the scale. Secondly, our analysis suggested that from the mid-1960s and onwards, Hungary was gradually becoming (re-)integrated in the capitalist world economy, as well as the international epistemic community in which dominant ideas about how to best operate it were formulated. As we noted, this enabled Hungarian policymakers to draw upon the ideas and practices of economists and state managers elsewhere. (As we demonstrate in the next chapter, this would turn to have profound implications this meant that Hungarian policymakers did not have to import

[434] Aldcroft and Morewood, *Economic Change in Eastern Europe since 1918*, p. 195.
[435] László Bruszt, '1989: the Negotiated Revolution in Hungary', *Social Research: An International Quarterly,* 1990, Vol. 57, No. 2, pp. 365-382.

neoliberalism 'from the West' on the eve of the transition. Rather, social forces for neoliberalism were emerging 'organically' in the 1980s, in an attempt to solve the deepening crisis of Hungarian state capitalism and reorient it along neoliberal lines.) Thirdly, as outlined in section 4, we contend that the transition in Hungary occurred in the context of the organic crisis of state capitalism in the 1980s, leading to the introduction of consensual economic and political reform.

The main reasons behind this diverging account can be traced to the theoretical approach that has informed our analysis. Drawing on the theory of state capitalism we showed in the first part of this chapter how the particular configuration of the post-World War II world economy forced leaders in Eastern Europe to pursue efforts of state-led development, in which particular emphasis was placed on rapid capital accumulation through investment in heavy industry. Although notoriously oppressive and exploitative, this regime of accumulation was neither 'irrational' nor 'unique' to Stalinism. Rather, the tendency towards increasing state intervention in the economy was, as Marxists have pointed out, something that was discernible to varying degrees throughout the capitalist world economy in the period of state monopoly capitalism/finance capitalism (1873-1929/45) and in the subsequent period of state capitalism proper (1945-1973).[436] It was particularly conspicuous in more 'backward' societies (the USSR from the late 1920s, Germany and Japan in the 1930s, and various 'developing' countries in the Global South from the 1950s and onwards), where the absence of a strong domestic bourgeoisie, together with the pressures of international economic competition and geopolitical rivalry – what Trotsky termed the 'whip of external necessity' – forced local ruling classes to turn to the state in order to promote capital accumulation. In the case of Hungary, state intervention had become an increasingly important feature of the economy during the interwar years, and this trend was intensified following the end of World War II. Yet, as we demonstrated in the second section, the full-scale 'Sovietisation' of Hungary was not a straightforward process and was only formally achieved on 18 August 1949, when the People's Republic of Hungary was declared.

Initially, the Soviet model proved to be highly efficient for capital accumulation within backward economies during a world-economic epoch of relative autarky.[437] Similar to

[436] Harman, *Zombie Capitalism*, pp. 115-119.
[437] Dale, 'Introduction: The Transition in Central and Eastern Europe', p. 3.

most other states in the Soviet bloc, Hungary experienced a dynamic socio-economic transformation in the 1950s and 1960s. State-led development 'from above' achieved rapid industrialisation and urbanisation, accompanied by a rise in living standards. As illustrated by G.M. Tamás,

> The change from village to town, from back-breaking physical work in the fields to technological work in the factory, from hunger, filth, and misery to modest cafeteria meals, hot water and indoor plumbing was breathtaking – and the cultural change dramatic. Also the rout from illiteracy and the inability to read a clock face to Brecht and Bartók was astonishingly short.[438]

And although opposition to the coercive nature of the Stalinist system was widespread in Hungarian society, the party-state was always able – if need be, with the help of Soviet tanks – to crush any resistance, most famously in the 1956 Revolution.

However, as we demonstrated in section 3, by the early 1960s problems were becoming apparent in the Soviet-style economies, as the resources for further primitive accumulation were becoming exhausted. For the Kádár regime these news were a grave concern, as it threatened to undermine the foundations of the delicate 'social compromise' that the regime had constructed after crushing the 1956 revolution. Throughout the Soviet bloc policymakers responded to these pressures by calling for economic reforms. This was officially recognised on 1 January 1968, when the ruling MSZMP introduced a programme of 'comprehensive reform', known as the New Economic Mechanism (NEM). The NEM aimed to reform the Hungarian economy by reducing the role of central planning, encouraging market relationships among firms, using prices as allocative functions and enterprises responding to prices in order to maximise profits, and using profits to budget new investments. Widely accepted as 'the far most radical reform of the Warsaw Pact countries',[439] the NEM brought greater freedom for state-owned enterprises in production and investment decisions, granted a more active role for world market prices in the economy (although the state maintained control over the prices of most consumer goods, in order to prevent inflation), created a more flexible labour market, and opened up the Hungarian economy to foreign trade. Initially, the reform seemed to fulfil its objective, as the Hungarian economy enjoyed robust annual growth rates between 1966 and 1975. But

[438] Tamás, 'Counter-revolution against a counter-revolution'.
[439] Swain and Swain, *Eastern Europe since 1945*, p. 136.

with mounting pressures from Stalinist 'hardliners' within the MSZMP bureaucracy and wider sections of Hungarian society, as well as from Moscow, the reforms were gradually slowed down after 1972, while the proponents of reform within the party were demoted from their positions.

Finally, in section 4, we demonstrated how the slowdown of accumulation and return of global economic crisis forced the Kádár regime to seek greater interaction with the capitalist world economy, through export-led growth and foreign loans. While this decision was 'rational' on the part of the regime, it left the Hungarian economy dangerously exposed to the vicissitudes of the world market. The problem was exacerbated by the fact that Eastern European currencies were non-convertible, which left the Kádár regime with a 'Hobson's choice': to seek loans in convertible currencies from Western states, private banks, and international financial institutions, for the goods imported from West. As a result, the indebtedness of the Hungarian economy rose significantly from the mid-1970s onwards, and, by the mid-1980s, the country had the highest per capita debt amongst the Soviet bloc economies.

Perceiving their own and the Soviet Union's relative decline, the Hungarian ruling class increasingly lost faith in the Soviet model and began to look for alternative methods for securing the conditions for capital accumulation. However, this led to internal divisions and strengthened calls for economic and political reforms, both within the ruling MSZMP and from wider sections of society. By the mid-1980s Hungary had turned in this direction, as its reform communist leaders preached about the necessity for austerity at home, while offering its enterprises for sale to Western investors ('even if', as Prime Minister Grósz famously declared in 1988, 'they became 100 percent foreign owned'[440]). As it turned out, the more visionary members of the *nomenklatura* opted to jump before they were pushed, leading to a process that Haynes aptly described as, 'moving sideways from the party, state or planning structures to the business and commercial ones.'[441] This then, answers the conundrum of why the Hungarian revolution of 1989 took the 'passive' character that it eventually did. The downfall of the party-state was not met with any significant resistance

[440] Grósz 1988, here cited in Nina Bandelj, *From Communists to Foreign Capitalists: The Social Foundations of Foreign Direct Investment in Postsocialist Europe*, Princeton, NJ: Princeton University Press 2008, p. 115.
[441] Mike Haynes, 'Class and crisis in Eastern Europe' in *Marxism and the New Imperialism*, edited by Alex Callinicos, London: Bookmarks, 1994, p. 171.

by the *nomenklatura* because they had already changed their suits to the newly evolving order.

The Ascendancy of Neoliberal Social Forces in Hungary in the 1980s

Introduction

In the previous chapter, we analysed the general contours of the Hungarian political economy from the end of World War II to its 'long transition' to a free market economy and parliamentary democracy in the 1980s. We argued that the particular configuration of the post-World War II world economy, geopolitical competition with the West, and the military influence of the Soviet Union, forced leaders in Hungary and elsewhere in Eastern Europe to pursue efforts of state-led development, emphasising rapid capital accumulation through investment in heavy industry. However, in the wake of the global economic crisis of the 1970s the 'Kádárist compromise' became increasingly difficult to uphold, prompting Hungarian policymakers to seek greater integration with the capitalist world economy. Then, as the economic crisis deepened in the 1980s, the Hungarian ruling class increasingly lost faith in the Soviet model and began to look for alternative methods for securing the conditions for capital accumulation. In this chapter, we seek to flesh out in more detail the argument that was raised in the previous chapter concerning the organic ascendancy of 'proto-neoliberalism' in Hungary *before* the formal regime change in 1989.

As we pointed out in the introductory chapter, the (neoliberal) transformation of Hungary and other Soviet-style economies has received much attention in recent scholarly debates. In broad terms, accounts have tended to emphasise two particular narratives. In *Constructions of Neoliberal Reason* (2010), Jamie Peck distinguishes between what he describes as 'centrifugal' and 'dialogic' theories of the global diffusion of neoliberalism.[442] According to the former, the neoliberalisation of the region was driven 'from the outside',

[442] Peck, *Constructions of Neoliberal Reason*, pp. 1-8.

through the mechanisms and pressures of global financial markets, transnational corporations, global and regional bureaucratic organisations (in particular through the EU, IMF, and the World Bank) and their Western advisors, free-market think tanks, and hegemonic (and imperialist) powers, such as the United Kingdom and the United States.[443] The problem with this account, Peck maintains, is that while it correctly identifies neoliberalism as the form that capitalism has taken since the global economic crisis of the 1970s, it incorrectly understands neoliberalism as form of 'replicating machine', which, once distilled into a coherent theory by Milton Friedman and Friedrich von Hayek, then promoted across the world by the conservative regimes of Margaret Thatcher and Ronald Reagan, and later translated into global strategy of capital accumulation by 'the 'Washington Consensus', swept the world in a unidirectional direction from the late 1970s and onwards.[444] By contrast, proponents of the 'dialogic' thesis, such as Bockman and Eyal, Peck argues, have perceptively (and correctly) pointed to the complex (and sometimes contradictory) articulation between internal dynamics *and* external pressures.[445] Having said this, it is difficult to deny the 'coercive' pressures applied by external actors in the neoliberalisation of the region. As Peck observes, 'In some senses, Eastern Europe during the 1990s, rather like Chile a generation earlier, did indeed become for a while the pre-eminent "laboratory" of neoliberal practice.'[446]

Yet, despite their disagreements, most scholars tend to agree that neoliberalism only 'conquered' the Eastern Europe *after* the demise of 'actually existing socialism' in 1989. Bockman and Eyal sum up the conventional wisdom on the subject, when they write: '*After* communist regimes in Eastern Europe collapsed in 1989, the new post-communist governments have embarked, at various speeds, on neo-liberal economic reform designed to bring about rapid liberalization, macroeconomic restructuring, and, ultimately,

---

[443] Cox, 'Global Perestroika'; Gowan, 'Neo-Liberal Theory and Practice for Eastern Europe'; Harvey, *A Brief History of Neoliberalism*; Holman, 'Integrating Eastern Europe' and 'The Enlargement of the European Union Towards Central and Eastern Europe'; Klein, *The Shock Doctrine*; van der Pijl, *Transnational Classes…*; Stiglitz, *Globalization and its Discontents*; Jan Toporowski, 'Neoliberalism: The Eastern European Frontier', in *Neoliberalism: A Critical Reader*, edited by Alfredo Saad-Filho and Deborah Johnston, London: Pluto Press, 2005, pp. 215-221.
[444] Peck, *Constructions of Neoliberal Reason*, pp. 1-8.
[445] Johanna Bockman and Gil Eyal, 'Eastern Europe as a Laboratory for Economic Knowledge: the Transnational Roots of Neoliberalism', *American Journal of Sociology,* 2002, Vol. 108, No. 2, pp. 310-352; Bockman*, Markets in the Name of Socialism*; Bohle and Neunhöffer, ''Why is There No Third Way?'; Phillips et al., 'Usurping Social Policy'; Shields, *The International Political Economy of Transition*; Adrian Smith and Alena Rochovská, 'Domesticating Neo-liberalism: Everyday Lives and the Geographies of Post-Socialist Transformations', *GEOFORUM,* 2007, Vol. 38. No. 6, pp. 1163-1178.
[446] Peck, op. cit., p. 6.

privatization.'[447] However, as we argued in Chapter 2, this position is theoretically problematic, as it fails to acknowledge: a) the *persistence* of capitalist social relations in the Soviet bloc between 1945-1989, and b) the *interconnection* of the capitalist world economy. In addition, as we demonstrate in this chapter, it is simply *empirically* wrong. The aim of this chapter is therefore to show that, in the case of Hungary, neither of the above theses provides an adequate narrative of the ascendancy of neoliberalism. Rather, as we shall demonstrate, neoliberal ideas were already existent in Hungary *before* the regime change in 1989-1990. As such, we argue that the ascendancy of neoliberalism in the second half of the 1980s was a much more 'home-grown' programme, developing in 'dialogue' between radical reform economists and proponents of reform within the ruling MSZMP, than what has usually been acknowledged in the literature.

In light of the above discussion, the next section analyses the conditions under which neoliberalism emerged in Hungary in the 1980s, identifying what we, following Gramsci, can describe as the 'organic intellectuals'[448] of neoliberal 'common sense', who helped to facilitate the reorientation of the debate on how to reform 'socialism' along neoliberal lines. The third section then asks how radical reform economists interpreted the deepening crisis of the Hungarian political economy and what proposals they offered to overcome it, by analysing in detail the contents of 'Fordulat és Reform', a document published in 1987 by a group of radical reform economists in the *samizdat* journal *Medvetánc*, which, as we pointed out in the Introduction, has generally been described as the founding document of neoliberalism in Hungary. Finally, in the fourth section, we look at how the document contributed to ongoing reform debates amongst policymakers and wider Hungarian society in the late 1980s.

The Emergence of Social Forces for Neoliberalism in 'Socialist' Hungary: The Institute of Financial Research

As we noted in the previous chapter, the Hungarian economy was descending into an ever-deeper crisis by the time Károly Grósz assumed the post of Prime Minister in September 1987. Economic growth, which had only averaged 2 percent between 1979 and 1984, was

[447] Bockman and Eyal, 'Eastern Europe as a Laboratory...', pp. 310-311 (my emphasis).
[448] Gramsci, *Selections from the Prison Notebooks*.

negative in 1985 and only reached 1.5 percent in 1986. At the same time, real wages had been stagnating since 1979, while inflation, which had only once (in 1976) reached more than 5 percent before 1978, was averaging 7.15 percent between 1979-1986. Although these figures were not necessarily much worse than many Western economies at the time – for example, despite all the gloss about the wonders of 'Thatcherism', the UK economy only grew with 1.9 percent per year between 1979-1986, while inflation in France and Italy averaged 9.4 and 13.8 percent respectively between 1979-1986 – Hungary's situation was made worse by its notoriously high external debt.[449] The country seemed perennially trapped in the not-so-privileged group of 'Severely Indebted Middle Income Countries' (SIMICs[450]); in fact, in the second half of the 1980s, Hungary had the highest per capita debt rate in Eastern Europe and the annual debt servicing amounted to more than 10 percent of GDP.[451] In July 1987 the MSZMP Central Committee was therefore forced to self-critically admit that the objectives of the 7th Five-Year Plan, which had only been introduced one year earlier, were no longer attainable, and that the introduction of painful austerity measures, although potentially leading to serious social conflicts, was 'unavoidable'.[452] Grósz presented himself as a devoted reformer, but argued that there was a need for 'order, discipline, and full adherence to the principles of performance', if the planned reforms were to be successful.[453] He was welcomed by the Hungarian public opinion, as well as Western governments and financial circles, who praised 'his profile of economic liberalism and political conservatism – what locals at the time called the Pinochet model.'[454] However, he received a lukewarm reception from the opposition, who argued that the reforms did not go 'deep enough'.[455]

[449] Author's calculations based on figures from the World Bank, World Development Indicators.
[450] The term was developed by the World Bank to describe those countries whose GNP per capita was more than US$ 480 and less than US$ 6,000 in 1987, and in which three-out-of-four debt ratios were above critical levels. These are: debt to GNP (above 50 percent), debt to exports of goods and services (above 275 percent), accrued debt service to exports (above 30 percent), and accrued interest payments to exports (above 20 percent). In 1990, this group included: Argentina, Bolivia, Brazil, Chile, Congo, Costa Rica, Ecuador, Honduras, Hungary, the Ivory Coast, Mexico, Morocco, Nicaragua, Peru, Philippines, Poland, Senegal, Uruguay, and Venezuela.
[451] Andor, *Hungary on the Road to the European Union*; Drahokoupil, *Globalization and the State in Central and Eastern Europe*, p. 102; World Bank, *Hungary: Structural reforms for sustainable growth*, p. 1.
[452] MSZMP 1987, here cited in Henrik Vass, *A Magyar Szocialista Munkáspárt határozatai és dokument-umai 1985-1989*, Budapest: Interart Stúdió, 1994, pp. 352-360.
[453] Grósz 1987, here cited in Ripp, *Rendszerváltás Magyarországon, 1987-1990*, p. 56 (my translation).
[454] Susan Woodward, *Balkan Tragedy: Chaos and Dissolution After the Cold War*, Washington, DC: The Brookings Institute, 1995, p. 107. See also Andor, op. cit., p. 20; Ripp, op. cit., pp. 55-59.
[455] Ripp, op. cit., pp. 55-59.

Grósz was thus facing a two-front struggle: on the one hand, he needed to introduce further economic reforms in order to fend off criticism at home and satisfy foreign lenders, while on the other hand, he needed to ensure that these reforms did not jeopardise the hegemonic role of the ruling MSZMP in society. But where was he to turn for advice on how to introduce the reforms necessary for 'turning around' the economy? It is at this critical juncture that we can see the molecular emergence of social forces for 'proto-neoliberalism' in Hungarian society. In the remaining part of this section, we seek to offer some further detail about the intellectual roots of neoliberalism and the individuals involved.

As we demonstrated in the previous chapter, experiments with 'market reform' had a longstanding tradition in nominally 'socialist' Hungary, dating as far back as the mid-1950s. Despite the constraints imposed by the Kádár regime following the crushing of the 1956 revolution, Hungarian economists were well versed in neoclassical economics and, from 1964 and onwards, had the possibility to travel to Western universities. By the early 1980s, some of the classical works of neoliberals, including Friedman and Hayek, were also available in translation.[456] By then, the majority of the faculty and students of the Karl Marx University of Economics in Budapest, which, as Phillips et al. point out, was 'the principal institution for the education of Hungary's economic and political elite'[457], were already neoclassical in orientation. In a 2009 interview in the Hungarian monthly *Egyenlitő*, Béla Kádár, a well-known economist and Minister of International Economic Affairs in the Antall government (1990-1994), provides a mesmerising account of the ascendancy neoliberal ideas amongst policymakers in late-Kádárist Hungary. As he recounts,

> In the 1980s, Hungary was much more open than the neighbouring countries. This enhanced the neoliberal line, since those who could travel abroad essentially received essentially a neoliberal education. It was always more profitable to be connected to the Anglo-Saxon world. The peak of the financial profession was to work for the IMF or the World Bank. You were most probable to land such a position if you were a fervent believer of the therapy that these institutions were offering. But even at the Karl Marx University of Economics, the Anglo-Saxon recipes were the most attractive ones, most scholarships were US-funded, the Soros Foundation appeared, the Chicago School had a very strong influence on domestic

[456] Phillips et al., *'Usurping Social Policy'*, p. 588.
[457] Ibid..

economic thinking from the late 1970s.[458]

Kádár's account is highly revealing, as it confirms our claim that neoliberal ideas were already existent (albeit in an embryonic form) in Hungary prior to the regime change in 1989-1990.

So how was it possible for neoliberal ideas to develop in nominally 'socialist' Hungary? As we noted in the previous chapter, until the mid-1980s, market reformers had primarily focused on 'perfecting the economic mechanism', while accepting the hegemonic role of the ruling MSZMP in society. But this was to change rapidly during the second half of the decade, as a small, but highly influential and dynamic group of young reform economists emerged in Hungarian society, who, drawing on neoliberal doxa, came to argue that the only cure for the beleaguered Hungarian economy was the implementation of 'radical' market reforms. However, rather than an 'imported project'[459] developed by technocrats and neoliberal economists educated at Western universities, as was the case with the Chilean 'Chicago Boys'[460] or the 'Georgetown Gang'[461] of émigré economists that descended on Latvia following its independence from the Soviet Union, the architects of neoliberalism in Hungary emerged *from within* the institutions of the party-state itself, more precisely in the in-house research institute of the Ministry of Finance, the Institute of Financial Research.[462]

The institute had been set up in 1968 by Jenő Wilcsek.[463] Wilcsek was an influential economic policymaker who had moved to the Karl Marx University of Economics following the defeat of the Hungarian Revolution of 1956, where he developed an interest in mathematical economics 'because its technical language could conceal a wide range of

---

[458] Kádár, here cited in László Szále, 'A vezetői minőség forradalma', interview with Béla Kádár, *Egyenlítő*, 2009, Vol. 7, No. 7-8.
[459] Peck, *Constructions of Neoliberal Reason*, p. 2.
[460] On the rise of the 'Chicago Boys' in Chile, see Klein, *The Shock Doctrine*, pp. 77-81; Marion Fourcade-Gourinchas and Sarah L. Babb, 'The Rebirth of the Liberal Creed: Paths to Neoliberalism in Four Countries', *American Journal of Sociology,* 2002, Vol. 108, No. 3, pp. 547-549.
[461] On the 'Georgetown Gang' in Latvia, see Jan Berzins and Jeffery Sommers, 'Twenty Years Lost: Latvia's Failed Development in the Post-Soviet World', in *First the Transition, Then the Crash: Eastern Europe in the 2000s*, edited by Gareth Dale, London: Pluto Press, pp. 120-122; Juris Dreifelds, *Latvia in Transition*, Cambridge: Cambridge University Press, 1996.
[462] Andor, *Eltévedt éllovas*, pp. 160-161; Greskovits, *The Political Economy of Protest and Patience*, pp. 38.
[463] If not indicated otherwise, the information on the Institute of Financial Research on the following pages is provided from the semi-structured interviews carried out with E.Sz, L.K, and Z.M.P.

politics.'[464] When Wilcsek left his post in 1975, he was replaced by István Hagelmayer,[465] a renowned reform economist and former head of the Karl Marx University's Department of Financial Economics. Hagelmayer, whose work focussed on monetary theory, was revered by his students, and, from the late 1970s and onwards, he managed to convince many of them to join the research institute. Beside Hagelmayer's personal charisma, there were a number of other reasons that made the institute a popular destination for many economists, who were in the early phase of their careers, including an 'apolitical' work environment, access to up-to-date (and sometimes confidential) economic data on the Hungarian economy, as well as the chance to earn a relatively high salary. As one former members recalled the intellectual environment within the research institute in the 1980s in an interview:

> The institute was an intellectual citadel; in fact, we were on the top of an intellectual peak, with a higher salary than in the academic institutions, with access to much more information [on the Hungarian economy], including top-secret materials … And we also developed a sense of responsibility that we will save Hungary![466]

A similar view was later expressed by Lajos Bokros, another former researcher at the institute, who, as we shall see below, would go on to become one of the most (in)famous and relentless advocates of neoliberalism in post-transition Hungary. In an interview in December 2000, he discusses the importance of the intellectual climate at the institute:

> I believe that, in those days, this was an exceptional workplace. The era and the people are very important. When Hetényi was Minister of Finance, Hagelmayer was Director and Gábor Havas Head of Department [of the Institute of Financial Research], the institute represented an exceptionally free world, packed in wadding and secluded from the outside world, but nonetheless a very free world. Back then, there were few workplaces like this in Hungary. … It cannot be emphasised enough how privileged we were compared to anyone who, as an economist, in the early-stages of their career, wanted to find a job and be able to work with what they liked. Once again, I would like to emphasise the importance of the three "H's": Hetényi, Hagelmayer, Havas. Let us remember them forever. … Apart from the 'three H's', László Antal also served as model. It follows from the specificities of the Hungarian situation that the young reform economists finally met with the democratic opposition, since, although having started from different fields and positions, they both

---

[464] Bockman, *Markets in the Name of Socialism*, p. 120.
[465] Hagelmayer's (1933-1997) work focussed on monetary theory and he was a strong critic of Marxism-Leninism. He served as the Director at the Institute of Financial Research until 1987. After the regime change, he was appointed as the first President of the State Audit Office by Prime Minister József Antall.
[466] Interview with E.Sz 23 March 2011. See also Tőkés, *Hungary's negotiated revolution*, p. 203.

reached the same conclusions: without a political transition, there is no economic transition. This idea was already present in "Fordulat és Reform", albeit not as harshly, but we said it.[467]

Amongst those that joined the institute in the late 1970s and early 1980s were, as one interviewee pointed out, 'some of the greatest minds of a new generation of reform economists'.[468] These included:

1. László Antal (1943-2008). An internationally renowned 'reform economist', who had graduated from the Karl Marx University of Economics in 1967, Antal worked for the Ministry of Finance for almost a decade, before joining the Institute of Financial Research as a researcher in 1977. He was a leading member of the 'reform-wing' within the ruling MSZMP, and contributed to the economic programme of the Grósz government.[469] Later, he would serve as Deputy Minister of Finance in the last 'communist' government, led by Miklós Németh. Following the regime change, he joined the (neo)liberal SZDSZ and went on to serve in a number of high-ranking policymaking positions in the 1990s and 2000s, including as advisor to the President of the MNB (1990-1991) and the Hungarian Foreign Trade Bank (1992), the ministers of finance of the first MSZP-SZDSZ government (1994-1998), and later as economic policy advisor to the Prime Minister's Office during the socialist-liberal governments of Péter Medgyessy and Ferenc Gyurcsány.

2. Lajos Bokros (b. 1954). Similar to many other influential reform economists, Bokros was educated at the Karl Marx University of Economics, which, as we noted in the previous chapter, was one of the most Western-oriented universities in the Soviet bloc. He joined the Institute of Financial Research in 1980 and became famous within liberal opposition circles in the 1980s, publishing articles in samizdat papers under the pseudonym 'David Ricardo'. After he leaving the institute in 1987, he worked for the MNB in a number of high-ranking positions, including as its Managing Director between 1989-1991. Following the regime

[467] Bokros, here cited in Rádai, *Pénzügyminiszterek...*, pp. 166-167.
[468] Interview with Z.M.P on 21 December 2011.
[469] Antal, here cited in Gizella Tarnói, 'Mindenki tudta hogy amit írunk, igaz', interview with László Antal, *Mozgó Világ*, March 1990, p. 12.

change, he served as the President of the Budapest Stock Exchange (1990-1995), while in parallel being the Head of the newly created State Property Agency (*Állami Vagyonügynökség*, ÁVÜ) (1990-1991), and the Chief Executive of Budapest Bank (1991-1995). He became appointed Minister of Finance in 1995 by Prime Minister Gyula Horn and would go on to plan and oversee the introduction of the largest austerity programme in the history of post-transition Hungary, commonly known as the 'Bokros Package', but was forced to resign one year later amidst widespread criticism.[470] Following his resignation, he moved abroad, working as the director of the World Bank's department for the Europe and Central Asia Region (ECR), and later as a consultant for the IMF. As part of his duties, he has contributed in the spreading of neoliberal ideas and practices working as an advisor to the governments of Croatia, Poland, and, most recently, in Ukraine. In the mid-2000s he returned for a brief period to academia, working as Professor in Economics at the Central European University (CEU) in Budapest. Reflecting wider trends in the evolution of neoliberalism, ranging from Britain's New Labour under Tony Blair to the African National Congress (ANC) in post-Apartheid South Africa, Bokros has gradually moved to the right on the political spectrum over the years. Originally a member of the ruling MSZMP, which he claimed to have joined 'because I have a strong sense of solidarity with those who are underprivileged, disabled, and the outcasts [of society]'[471], he officially dissociated himself with its successor party, the MSZP, in 2007, after the party expressed concerns about the privatisation of the health service. By 2009, he was standing as the leading candidate of the national-conservative MDF in the European Parliament elections. One year later, he stood as the party's candidate for Prime Minister in the general elections, but failed miserably, obtaining only 2.66 percent of the votes. In 2011, he set up the Freedom and Reform Institute (*Szabadság és Reform Intézet*), which is a surrogate of the pan-European neoliberal-neoconservative think tank New Direction–The Foundation of Free Market Reform, and affiliated to the Alliance of European Conservatives and Reformists (AECR). In April 2013, he founded the Movement for a Modern Hungary (*Modern Magyarország Mozgalom*, MOMA),

[470] For Bokros' own account of his time as Minister of Finance, see the interview in Rádai, *Pénzügy-miniszterek...*, pp. 159-225.
[471] Ibid., p. 163.

which aims to 'represent authentically and spread pro-market, libertarian, national and European values in Hungary.'[472]

3. György Surányi (b. 1954). An old friend of Bokros (the two served together in the military and, in the opinion of one of their former tutor's, were 'like brothers'[473]), Surányi has had a similarly glittering transnational career. He joined the Institute of Financial Research in 1977, following his graduation from the Karl Marx University of Budapest. After a brief spell at the World Bank in the mid-1980s he returned to Hungary in 1988, working as chief economic policy advisor and then Under-secretary of State at the National Planning Office in the Németh government. Surányi has served as the MNB twice (first between 1990-1991, and then again between 1995-2001). During this period, he played an essential role in the neoliberalisation of Hungary: for example, he co-authored the 'Bokros-package' and during his tenure at the MNB the liberalisation of the country's banking and finance sector continued apace. Until recently, worked as the regional head of Banca Intesa San Paolo (previously the Central European International Bank, CIB), and he has also served on the advisory board of the Hungarian-American Enterprise Fund (*Magyar-Amerikai Vállalkozási Alap*, HAEF), the EBRD, the Board of Directors of the International Institute of Public Finance (IIPF) and the East-West Institute (EWI), an influential global think-tank, set up in 1980 by John E. Mroz and Ira D. Wallach, in order to promote peace and economic stability between East and West, and train 'strong leaders for democratic states.'[474] Surányi continues to be highly regarded in domestic and international financial circles, and was considered as a potential Prime Minister candidate in 2009 by the MSZP and SZDSZ following the resignation of Ferenc Gyurcsány.[475]

4. György Matolcsy (b. 1955). Also a graduate of the Karl Marx University of Economics, Matolcsy worked for the Institute of Financial Research in 1980s. In the late 1980s and early 1990s, he became a strong advocate of 'radical' reforms

[472] MOMA, 'A MOMA célkitűzései', Budapest: *Modern Magyarország Mozgalom* (MOMA), 2013. Available on: http://www.moma.hu/rolunk/celjaink/#rtop (last obtained on: 4 November 2013).
[473] Nicholas Denton, 'Intimate Network: Economic Policy-makers', *Financial Times*, 17 September 1990.
[474] EWI, 'The Decades of Making the World a Safe and Better Place', *East-West Institute* (EWI), 2013. Available on: http://www.ewi.info/30 (last accessed on: 6 November 2013).
[475] Politics.hu, 'SZDSZ backs György Surányi for PM', 25 March 2009. Available on: http://www.politics.hu/20090325/szdsz-backs-gyorgy-suranyi-for-pm/ (last obtained 16 October 2013).

along neoliberal lines, including the much-criticised process of 'spontaneous privatisation',[476] and he coordinated the Bridge Group's (*Híd-csoport*[477]) reform programme in 1989-1990, which urged the incoming government to impose severe austerity measure in order to bring down Hungary's balance of payments deficit and halt the growth of inflation.[478] However, from the mid-1990s and onwards, he became increasingly critical of capitalism 'red in tooth and claw',[479] beginning instead to advocate the use of more 'unorthodox' economic policies, which advocate a stronger role for the state in the economy, whilst retaining many of the core features of neoliberalism (including a dogmatic adherence to macroeconomic stability, the provision of tax cuts to private enterprise and the upper and middle-classes in order to stimulate economic growth, etc.). Commonly referred to as 'Matolcsyism' in contemporary Hungarian political discourse, these policies have found a warm reception in national-conservative circles. Following the regime change, he worked as an economic advisor to Prime Minister József Antall, responsible for the government's privatisation programme, but resigned within a year of taking office following frequent disagreements with the Minister of Finance, Ferenc Rábár, and the Minister of International Economic Relations, Béla Kádár.[480] From 1991 to 1994 he served as the Hungarian government's representative at the EBRD. From the late 1990s he has become increasingly closely associated with the national-conservative FIDESZ. Having designed the economic programme of the party in the 1998 general elections, Matolcsy eventually joined the party in 2003. He has served as Minister of Economy in both the first and second Orbán governments (first between 1999-2002, and then between 2010-2013), and was nominated by Prime Minister Orbán as the Governor of the MNB in March 2013, after the six-year tenure of András Simor had come to an end.

[476] György Matolcsy, 'Defending the Cause of Spontaneous Reform of Ownership', *Acta Oeconomica*, 1990, Vol. 42, No. 1, pp. 1-22.
[477] The group was set up in November 1989 and funded by the American-Hungarian billionaire and philanthropist George Soros. The group consisted of a group of politically 'independent' economists and bankers, though many were affiliated with the two major of the democratic transition, SZDSZ and MDF. The aim of the group was 'to work as a bridge between the competing political parties and experts, in order to provide a joint crisis management programme to the new governement and parliament.' See Híd-csoport, 'Híd a közeli jövőbe'.
[478] Ripp, *Rendszerváltás Magyarországon, 1987-1990*, p. 513.
[479] Hardy, *Poland's New Capitalism*, p. 35.
[480] On the reasons for these disagreements, see the interview with Rábár in Rádai, *Pénzügyminiszterek...*, pp. 23-24.

5. Márton Tardos (1922-2006). An internationally acknowledged economist – in 1990 he was described by the *Financial Times* as 'one of Hungary's best-known and cleverest radical economists'[481] –, Tardos served as the Executive Director of the Institute of Financial Research between 1987-1990. He was a passionate advocate of 'radical' reforms and participated in the preparation of *both* the Bridge Group and the Blue Ribbon Committee's (*Kék Szalag Bizottság*)[482] reform programme during the transition.[483] Tardos also held close relations with the nascent democratic opposition from the mid-1980s, and became one of the founding members of the (neo)liberal SZDSZ in 1988 (he served as an MP between 1990-2002). He was a member of the supervisory board of the Budapest Stock Exchange between 1990-1993.

This group of radical reform economists also included others who would later go on to play important roles in the neoliberalisation of Hungary. Amongst other notable members of this group, consider the below listed examples and their connections to neoliberal social forces in Hungary and elsewhere. István Csillag, one of the contributors to 'Fordulat és Reform', he worked as a researcher at the Institute of Financial Research from 1986 to 2002, when he became the Minister of Economy and Transportation in the Medgyessy government. Following his resignation in 2004, he served as the Chairman of the Hungarian Export-Import Bank (Eximbank) until 2010. Throughout this period, he has remained an unrepentant supporter of neoliberalism in Hungary, publishing his views regularly in domestic newspapers and journals. Mihály Kupa, a graduate of the Karl Marx University, he worked for the Institute of Financial Research from 1975 to 1984. From December 1990 to February 1993 he served as Minister of Finance in the Antall government, where he designed the austerity measures introduced in 1991 (known in Hungary as 'the Kupa Plan').[484] In 2001, he created the Centrum Party,[485] which attempted

---

481 Denton, 'Intimate Network'.

482 The committee was set up in the autumn of 1989 with the task of preparing a reform programme for the first democratically elected Hungarian government. It consisted of international and Hungarian economic experts and was jointly headed by Tardos and Sylvia Ostry, a Canadian economist and former deputy minister of trade and international relations. The proposals of the committee can be found in Kék Szalag Bizottság, *A Kék Szalag Bizottság gazdasági programjavaslata*.

483 Ripp, *Rendszerváltás Magyarországon, 1987-1990*, p. 513.

484 'The Kupa Plan', 1991. Available on: http://www.dtic.mil/dtic/tr/fulltext/u2/a344093.pdf (last accessed on: 6 November 2013). See also the interview with Kupa in Rádai, *Pénzügyminiszterek...*, pp. 45-75.

485 The party was founded as a coalition between the Christian Democratic People's Party (KDNP), the Hungarian Democratic People's Party (*Magyar Demokrata Néppárt*, MDNP), the Association of Green

to present itself as a ‘party of the middle’, neither supporting the centre-left MSZP-SZDSZ coalition, nor the parties of the centre-right lead by FIDESZ, but it failed to get into parliament in the 2002 general elections and he left the party in 2004. Between 2002-2011, he served on the Supervisory Board of MOL, the Hungarian oil and gas giant. Then, there is Mihály Patai, a graduate of the Karl Marx University of Economics, who worked for the institute between 1978-1982, from where he moved to work for the Ministry of Finance. Between 1988-1993 he worked as an assistant to the Executive Director of the World Bank in Washington, DC. From 1996 to 2006, he worked as Chief Executive Officer of the German multinational financial services company Allianz’ Hungarian subsidiary. He was the President of the Budapest Stock Exchange from 2008 to 2011, and also served as the Hungarian Banking Association (*Magyar Bankszövetség*), the leading interest group of the banking industry in Hungary, between 2011-2012. At the moment, he is the President and CEO of Unicredit Bank Hungary, a post that he has held since 2006. Last, but not least importantly, there is László Lengyel, who has worked for the institute since 1976 to the present, and currently serves as the institute’s Executive Director. Throughout the 1980s, he was a vocal member of the reform opposition within the MSZMP and was ultimately dismissed from the party in April 1988, together with Mihály Bihari, Zoltán Biró, and Zoltán Király, in what was a last desperate attempt to restore party discipline (which eventually only strengthened the reformers’ hand).[486] He was one of the contributors to the Bridge Group’s reform programme.[487] However, in contrast to many of his former colleagues, Lengyel was never lured to party politics. Instead, he works as an economic analyst and political commentator, and has over the years produced a number of robust neoliberal works.[488]

The impact of this group in establishing neoliberalism in Hungary cannot be stressed enough. Their role in shaping the reform debate in the second half of the 1980s was crucial in engulfing Hungarian society and contributed to the emergence of a broad consensus that ‘actually existing socialism’ was irreparable, and needed massive, immediate, and wholesale reforms and the introduction of a free market economy and democracy. As Ripp

---

Democrats (*Zöld Demokraták Szövetsége*, ZDSZ), and the Association of a Third Side for Hungary (*Harmadik Oldal Magyarországért*, HOM).

486 Swain, *Hungary: The Rise and Fall of Feasible Socialism*, p. 18; Tőkés, *Hungary’s negotiated revolution*, pp. 192, 198-199.

487 Ripp, *Rendszerváltás Magyarországon, 1987-1990*, p. 513.

488 Lengyel publishes frequently in some of the largest Hungarian newspapers and journals, including *Népszabadság*, *Heti Világgazdaság*, and *Figyelő.* For his most recent book on Hungary and the global economic crisis, see László Lengyel, *Pretoriánusok kora*, Budapest: Kalligram Kiadó, 2011.

contends, this group of radical reform economists had 'already been successful in changing the intellectual climate of Hungary'.[489]

So, what separated the members of this group from other Hungarian reform economists at the time? To begin with, they constituted a close group, whose members were all well versed in neoclassical economic theory, adhered to a technocratic and 'apolitical' *Weltanschauung* (although, as we saw above, most of them harnessed good relations with 'reformers' in the ruling MSZMP *and* opposition circles), and, most of them (with the notable exception of Tardos), were relatively young at the time of the transition. In September 1990, a *Financial Times* journalist described the intimate connections of Hungary's radical reform economists as follows:

> Hungary's post-communist economic policy-making establishment has the intimacy of a university senior room. This might have been expected: *the leading figures come from a close network of academics who worked on the margins of Government and have known each other for decades. They have more in common with each other than with the parties they have attached themselves to.*[490]

Indeed, surveying the similar educational background of Hungary's radical reform economists, one Hungarian commentator described the members of this group as the 'Dimitrov Square Boys' – in reference to the name of the square where the Karl Marx University of Economics (today Corvinus University) was located.[491] In addition, many of them were also fluent in English and/or German, which probably facilitated their imbedding into international neoliberal circles, as Gramsci discussed in a note on language: 'Culture, at its various levels, unifies in a series of strata, to the extent that they come into contact with each other, a greater or lesser number of individuals who understand each other's mode of expression in differing degrees, etc.'[492] Moreover, the members of the Institute of Financial Research were also characterised by what Andor has described as a 'missionary vision', which 'seemed to prove that after the national poets in nineteenth century, the torchbearers of the twentieth century were the economists; "who were to guide the [Hungarian] people towards Canaan".'[493] Finally, their critique of the

[489] Ripp, *Rendszerváltás Magyarországon, 1987-1990*, p. 30 (my translation).
[490] Denton, 'Intimate Network'.
[491] Roland Sas (pseudonym), 'A Dimitrov téri fiúk', *Élet és Irodalom*, 1989.
[492] Gramsci, *Selections from the Prison Notebooks*, p. 349.
[493] Andor, *Eltévedt éllovas*, pp. 160-161. See also Tőkés, *Hungary's negotiated revolution*, pp. 191-195.

Kádár regime did not separate between economics and politics, but openly declared that (radical) economic and political reforms needed to go hand in hand.

Interestingly, many of the above characteristics have been identified by scholars as a common feature of neoliberal reformers elsewhere, ranging from the infamous 'Chicago Boys' that oversaw the implementation of neoliberal shock therapy in Chile between 1975-1990 to Mexico's neoliberal reformers in the 1980s.[494] As Balcerowicz has argued with regard to the Balcerowicz team' in Poland: 'The shared background, commonality of purpose, similar age (around 40), and the common pressures created what quickly became known as the "Balcerowicz team"'.[495] How then did the members of the Institute of Financial Research interpret the crisis that was engulfing the ailing Hungarian economy in the 1980s and what solutions did they offer to overcome these problems? It is to this we turn our attention next: the radical reform programme of 'Fordulat és Reform'.

Building Neoliberal Consent: 'Fordulat és Reform'

Although Hungarian reform economists had, as we noted above, confessed their admiration for neoliberal ideas before, the official emergence of 'proto-neoliberalism' as a distinct opposition trend in Hungary can be dated to the publication of 'Fordulat és Reform' in 1987.[496] While the intellectual origins of the document can be traced back to the late 1970s and early 1980s, the actual document was put together by a group of more than 50 economists and other social scientists, and appeared in 1987 as a special supplement to samizdat journal *Medvetánc*.[497] However, this account leaves out a number of piquant facts, which sheds light on the processes of state and class (re)formation in late-Kádárist Hungary.

To begin with, the document was not just put together 'out of the blue', but was prepared on the orders of the Social Policy Council of the Patriotic People's Front (*Hazafias*

[494] Sarah Babb, *Managing Mexico: Economists from Nationalism to Neoliberalism*, Princeton, NJ: Princeton University Press, 2004, pp. 171-198; Greskovits, *The Political Economy of Protest and Patience*, pp. 35-52; Shields, *The International Political Economy of Transition*, pp. 61-66.
[495] Balcerowicz, *Socialism, Capitalism, Transformation*, pp. 303-304.
[496] Andor, *Eltévedt éllovas*, pp. 160-161; Ripp, *Rendszerváltás Magyarországon, 1987-1990*, pp. 27-30.
[497] On the intellectual origins of 'Fordulat és Reform', see László Lengyel, 'Adalékok a Fordulat és Reform történetéhez', *Medvetánc*, 1987, No. 2, pp. 131-163. In the *Medvetánc* version, Antal, Bokros, Csillag, Lengyel, and Matolcsy are listed as editors, while an additional 50 reform economists and social scientists are listed as contributors.

Népfront). Founded in 1954 with the support of Imre Nagy, the Patriotic People's Front was revamped by Kádár following the 1956 revolution, with the purpose of 'unit[ing] the forces of society for the complete building up of socialism, for the solution of political, economic, and cultural tasks.' During the Kádár era, it became the largest mass organisation in Hungary, with a national newspaper and thousands of local committees at its disposal throughout the country, involving as many as 130,000 members.[498] Since 1982 the organisation had been headed by the highly ambitious reform communist Imre Pozsgay, who made little secret of his desire to one day succeed Kádár as General Secretary of the MSZMP.[499] Although Pozsgay had been a member of the MSZMP Central Committee since 1980, he also held good connections with opposition intellectuals (in fact, he was among the participants of the historical gathering of the Hungarian opposition, in Monor in 1985, and was also present when the MDF was formed in Lakitelek in September 1987). As one of the signatories to the document revealed in an interview, it was Pozsgay himself who commissioned the Institute of Financial Research to prepare a comprehensive economic reform programme.[500] An abridged version of the document was *first* published in *Közgazdasági Szemle*, the main professional economics journal of Hungary, which at the time was directed by Rezső Nyers, who, as we noted in the previous chapter, was an old reform communist and the architect of the NEM.

Having traced the origins of 'Fordulat és Reform', the first thing that stands out about the actual document is that its language bears a marked resemblance to the 'shock and awe' style, which has become such a distinguishing feature of neoliberal authors ever since Milton Friedman. As Naomi Klein points out, Friedman had favourably likened neoliberalism to a 'shock doctrine', which takes advantage of a disaster, in order to impose the idea of the new market order.[501] As Friedman famously put it, 'only a crisis – actual or perceived – produces real change. When that crisis occurs, the actions that are taken depend on the ideas that are lying around. That, I believe, is our basic function: to develop alternatives to existing policies, to keep them alive and available until the politically impossible becomes politically inevitable.'[502] Once a crisis struck, it was essential to act swiftly, to impose rapid and comprehensive change before society slipped back into what

---

[498] Romsics, *Hungary in the Twentieth Century*; Tőkés, *Hungary's negotiated revolution*.
[499] Ripp, *Rendszerváltás Magyarországon, 1987-1990*, pp. 28-29. On Pozsgai, see Tőkés, *Hungary's negotiated revolution*, pp. 217-245.
[500] Interview with L.K on 21 December 2011.
[501] Here cited in Klein, *The Shock Doctrine*, pp. 6-7 and 140-141.
[502] Friedman, *Capitalism and Freedom*, p. xiv.

Friedman described as the 'tyranny of the status quo.'[503] According to his estimates, which were probably informed by his personal experiences as an advisor to Chile's dictator, General Augusto Pinochet, 'a new administration has some six to nine months in which to achieve major changes; if it does not seize the opportunity to act decisively during that period, it will not have another such opportunity.'[504] As we noted in Chapter 2, in CEE, these ideas were expressed most eloquently by Balcerowicz, who emphasised the need for Eastern European reformers to take advantage of the brief 'window of opportunity' represented by the extraordinary political changes of 1989, in order to implement as much market reform as possible, before the return of 'normal politics'.[505]

In a similar vernacular to Friedman and Balcerowicz, the authors of 'Fordulat és Reform' painted a disastrous picture of the Hungarian economy, which they claimed was in 'a serious situation.' The 'signs' of the crisis included, amongst others:

- The rate of economic growth was diminishing, or in some years even negative;
- The living standards of the population was stagnating and conditions were deteriorating for significant layers of society;
- Foreign debt was growing and, together with rising interest rates and repayment obligations, are contributing to a risk of insolvency;
- Inflationary pressures are increasing, while citizens are feeling more insecure and loosing their trust in state institutions; and
- The deterioration of Hungary's foreign trade balance.

According to the document, these negative features were not accidental, but *inherent* to Hungary's (socialist) economy. As the document put it, 'It is a sign of deeper, structural tensions within the economy, which are primarily manifested through its inability to adapt itself to changes within the world economy.' This in turn led to a 'waste' of resources (labour power, raw materials, energy, and land) and created 'tensions' in the economy. Attempts to introduce corrective measures from the party-state were 'chaotic' and 'makeshift', and thus ultimately only served to deepen the crisis. According to the document, these problems were not only limited to the Hungarian economy, but were also

[503] Milton Friedman, *The Tyranny of the Status Quo*, San Diego, CA: Harcourt Brace Jovanovich, 1984.
[504] Ibid., p. 3.
[505] Balcerowicz, *Socialism, Capitalism, Transformation*.

visible throughout the CMEA economies, 'where the inability to adapt [to the world economy] is leading to uncertainty, and the stagnation of [trade] relations.'[506]

According to the authors of 'Fordulat és Reform', 'the *necessary prerequisite* for recovering from the crisis' facing the Hungarian economy was to encourage the unfolding of a market economy (*sans préfixe*).[507] To adapt to the requirements of intensive growth and a competitive world market, the authors suggested the introduction of a 'comprehensive reform programme', 'in line with the spirit of the NEM and the Central Committee's April 1984 decision,' which had re-introduced economic reforms that sought to enable the evolution of a market economy. The key goal of the reform programme was to 'to bring attention to the gravity of the situation, and hold back [the policymakers in the regime] from going down a road, from which there is no return.'[508] In order to stop the situation from worsening, the authors called for the introduction of '*comprehensive, radical, democratising, decentralising, and deregulating market reforms*.'[509] As part of the document's proposals central planning was to be abandoned and 'the interference of political and administrative organisations in the functioning of the self-regulating market was to be blocked by constitutional means, if necessary.' Furthermore, the document called for the introduction of a competition and bankruptcy law, which, it was suggested, would serve to encourage the 'creative destruction' of big state-owned enterprises holding a monopoly position in the economy, and stimulate the creation of new, competitive firms.[510] Moreover, trade was to be liberalised in order to enhance the growth of exports and bring down the government deficit. These measures were to go 'hand in hand' with severe macroeconomic restrictions. According to the programme, fiscal consolidation was necessary in order to bring Hungary's growing foreign debt to a halt, stabilise the state budget, increase the efficiency of enterprises, and, at the same time, contribute to the restructuring of the Hungarian economy. This was to be achieved through the pursuit of restrictive monetarist policy. The recommended monetary restrictions were to have four components: 1) the liberalisation of imports and devaluation of the Hungarian *forint*; 2) a reform of the taxation system, introducing a personal income tax and value-added tax; 3) increasing the reliance on monetary measures of planning; and, finally 4) 'a very strict

---

[506] Antal et al., 'Fordulat és Reform', p. 5. The development of the Hungarian economy in the 1980s is analysed in detail by the authors on pp. 47-74.
[507] Andor, *Eltévedt éllovas*, p. 160.
[508] Antal et al., op. cit., p. 6.
[509] Ibid., p. 16 (my emphasis).
[510] Ibid., p. 18.

curbing of domestic incomes' as a result of the simultaneous increasing prices, while subsidies on key consumer items were to be slashed (e.g. housing, energy, meat, milk, etc.).[511]

The programme admitted, with an uncompromising honesty, that, 'temporarily', the suggested reforms would come with 'economic losses'.[512] For example, it was argued that rising unemployment, reduction of real wages, and falling living standards were 'undesirable, but inevitable' outcomes of the reforms.[513] However, as the programme went on to explain, these 'sacrifices' would, ultimately, 'have to be made' in order for the reforms to be 'successful'. The 'logic' behind this argument is carefully described by the authors:

> From the point of view of the enterprise, wages are considered as costs, while from the point of view of the individual it is the price of labour power; a means towards the attainment of consumer goods. This "dual" function also reflects *conflicting interests*. … As a result of the indicated conflict of interests, wages need to develop from such bargaining processes, which facilitate the harmonisation of interests. *In a market economy, such bargaining processes do not enable the growth of wages at levels threatening the equilibrium of the economy*. This is partially due to the cost-sensitiveness of enterprises, and partially guaranteed by a developed labour market.

The authors admitted that, '[i]n the initial period of implementation, … the restrictive effects of market processes [will be] insufficient'. However, this problem could be overcome by allowing the state to restrict wage growth 'from above'.[514]

Liberalisation and austerity, the document goes on to argue, was not enough to achieve a long-term solution to the ailing Hungarian economy. To adapt to the increasingly competitive pressures of the world economy, the authors argued that the system of ownership had to be reformed. The basic principle of the ownership reform was set out as follows:

> all members of society (citizens, communities, organisations, and institutions) may become owners of all forms of social property, and may, for this, step out onto the market of properties, which includes the markets for securities and deposits; all actors on this market are constitutionally equal; the

---

[511] Antal et al., 'Fordulat és Reform', pp. 5-6, 16, 19, 20-21.
[512] Ibid., p. 17.
[513] Ibid., pp. 21-22 (emphasis in original).
[514] Ibid., pp. 28-29 (my emphasis).

> different property forms can be transformed into each other and freely chosen by the given group, community, or entrepreneur; and the state and its administrative organisations are not allowed to control ownership, except in specific circumstances, as set out by law.[515]

The document went on to propose, albeit, as Szelényi argues, in a somewhat 'opaque language'[516], the institutionalisation of a 'two-tier system of ownership', with large-scale, profit-oriented, state-owned enterprises (holding and joint stock corporations) at the top, and a variety of small-scale, private forms of ownership at the bottom. As Szelényi noted at the time, this implied that 'more investment in private firms should be allowed to open up to private enterprises to outside investors, including foreign investors, and also to transform some of the state enterprises into joint stock companies (and presumably allow private individuals or foreign investors to own stocks and not just bonds in such firms).'[517] Although not expressed openly, the document thus opened up the door for the privatisation of state-owned enterprises.

The authors of 'Fordulat és Reform' did not stop there, but argued that radical economic reform had to go hand in hand with moderate political liberalisation. As the document makes clear, 'the reform programme *cannot* be narrowly limited to the economy … but also needs to extend to other areas of society, including political institutions. Economic and social reform are connected with each other.'[518] This view stemmed from the authors' conviction that the necessary economic reforms required 'strong political will' and could only be introduced 'from above'. However, in order for this to take place, there was a need for a shift in the balance of power within the ruling MSZMP, which could enable the 'changing of the old guard'. (Perhaps not by accident, this view also coincided with the position of leading reformers within the ruling MSZMP, such as Pozsgay, Nyers, as well as the different strands of the opposition.) In line with this, the document called for the introduction of democratic reforms, including '[g]reater freedom and autonomy for citizens and communities', political equality and plurality, and encouraged the 'popular involvement and active participation' of civil society in reform debates by increasing the freedom of the press, freedom to form interests groups and the right to association.

---

515 Antal et al., 'Fordulat és Reform', p. 30.
516 Iván Szelényi, 'Eastern Europe in an Epoch of Transition: Toward a Socialist Mixed Economy?', in *Re-making the Economic Institutions of Socialism: China and Eastern Europe*, edited by Victor Nee and David Stark, Standford, CA: Stanford University Press, 1989, p. 229.
517 Ibid.; Antal et al., op. cit., pp. 30-36.
518 Antal et al., op. cit., p. 6.

Meanwhile, the hegemony of the party-state was to be limited and regulated by constitutional means. Ultimate responsibility for the economy was to be transferred from the ruling MSZMP to the government, which was to be provided with greater powers when it came to the revitalisation of enterprises, the creation of new markets, and the maintenance of restrictive monetary policies, and become responsible to a democratically elected parliament.[519]

Overall, the reforms outlined in 'Fordulat és Reform' constituted what David Harvey describes as a 'class project'.[520] However, contrary to Harvey's argument (which is shared by many other radical scholars, such as Gowan[521] and Klein[522]), we argue that it did *not* represent a 'restoration' of class power, but rather its 'retainment' (albeit with modifications), in an attempt to rescue the Hungarian state the deepening crisis that was engulfing the economies of the Soviet bloc in the late 1980s. While masked by a liberal rhetoric that appeared attractive to large sections of Hungarian society at the time (the provision of greater 'freedoms', 'human rights', etc.), this programme went hand in hand with increasing social inequalities. Ultimately then, as Ripp has argued, whether voluntarily or not, these reforms 'supported the interests of those "technocrats", within the party and in leading positions, who, after having stripped themselves of any ideological constraints, were preparing to take power [in society].'[523]

The Impact of 'Fordulat és Reform' on Reform Debates in 'Socialist' Hungary

The reform proposals outlined in 'Fordulat és Reform' were first presented to a wider audience at an academic seminar in Budapest in early December 1986. The seminar, which was headed by Rezső Nyers, a relentless advocate of market reforms within the MSZMP, was attended by around 50 reform intellectuals, including economists, political scientists, and a number of journalists (many of whom would later play a key role in the creation of a free press in Hungary). The air was buzzing with a sense of renewal. As one of the

[519] Antal et al., 'Fordulat és Reform', pp. 6, 17, 36-42.
[520] Harvey, *A Brief History of Neoliberalism*.
[521] Gowan, 'Neo-Liberal Theory and Practice for Eastern Europe'.
[522] Klein, *The Shock Doctrine*.
[523] Ripp, *Rendszerváltás Magyarországon, 1987-1990*, p. 28 (my translation).

participants at that meeting recalls: '[t]his was a *very important* meeting. I think that this was where we first realised that it was more than just a "reform" that was at stake. *My dear God, the whole regime is at stake here!*'[524] The reform proposals were generally well received by the audience and an abridged version was published in the main professional economics journal in Hungary, *Közgazdasági Szemle*, in June 1987. The publication of 'Fordulat és Reform' was, as a former member's of the editorial board recalls, 'a big breakthrough.' It became an immediate hit amongst Hungarian reformers. The first edition was, despite attempts by the party-state to sabotage its publication, printed in 17,000 copies(!), which was unparalleled in the history of the journal. Demand was so high that the document had to be republished twice (eventually it was printed in more than 30,000 copies).[525]

Following its publication, the document began, as Tőkés notes, to acquire 'a life of its own.'[526] Copies of the document started to reach the mushrooming opposition movement. By the mid-1980s, students at Hungarian universities had access to copy machines – thanks to the financial support of Western pro-democracy organisations, such as the Soros Foundation, headed by the Hungarian-American business magnate and philanthropist George Soros – and quickly began to duplicate the document in various opposition meetings. Simultaneously, the authors of 'Fordulat és Reform' began touring Hungary, explaining the rationale of the programme at various 'reform clubs'. As one interviewee recalls, these 'reform lectures' could sometimes lead to meetings that, in contemporary Hungary, would be considered 'strange encounters':

> In Pécs [an important industrial town in the south of Hungary], the Secretary of KISZ [the Communist Youth League], a guy called Gyurcsány [the Prime Minister of Hungary between 2004-2009], invited us to hold a two-day training, so me and István Stumpf [a political scientist and since 2010 member of the Constitutional Court] brought Laci Urbán [an economist and former FIDESZ politician] and Laci Kövér [founding member of FIDESZ and the current Speaker of the Hungarian Parliament] with us.[527]

[524] Interview with L.K on 21 December 2011 (my emphasis).
[525] Interview with Z.M.P on 21 December 2011.
[526] Tőkés, *Hungary's negotiated revolution*, p. 203.
[527] Interview with L.K on 21 December 2011.

Later in that year, the document was republished in the *samizdat* journal *Medvetánc*, together with 'Reform és Demokrácia', a document written by Mihály Bihari, which set out the necessary political reforms for increasing democracy in Hungary.[528]

By then, news about the document was also reaching beyond the borders of Hungary. In early 1987, *The Economist*, the renowned London-based news magazine; *Radio Free Europe,* the propaganda broadcasting service of the West during the Cold War; as well as *L'Unità*, the official newspaper of the Italian Communist Party (*Partito Communista d'Italia*, PCI), all carried positive stories on 'Fordulat és Reform'.[529] As a result, the ruling MSZMP, which until then had collaborated with the author's of the document, came to consider the document as 'enemy material', and decided to interrupt the dialogue.[530] In the summer of that year, the Institute of Financial Research was closed down on the orders of Péter Medgyessy[531], a prominent member of the late technocratic elite and then Minister of Finance in the Grósz government, on the grounds that 'the members of the staff held and propagated revolutionary views' and that its work was 'of no value'.[532]

However, rather than a sign of strength, the decision to clamp down on 'Fordulat és Reform' and the Financial Research Institute was an indication of the growing intellectual disorientation and political desperation within the ranks of the ruling MSZMP. The reform proposals presented in 'Fordulat és Reform', and the neoliberal doxa upon which it drew its intellectual inspiration, were rapidly becoming 'common sense', both in narrow reform economic circles, as well as in wider policymaking debates. This became evident in the intellectual debates that followed in the wake of the publication of 'Fordulat és Reform', where the party-state was pushed on the defensive. The Economic Subcommittee of the Central Committee of the MSZMP wrote a response to 'Fordulat és Reform', which was

[528] Bihari, 'Reform és Demokrácia', pp. 165-227. It should be pointed out, however, that Bihari still conceived these reforms to be achievable 'within the framework of socialism.'
[529] Lengyel, 'Adalékok...', p. 153.
[530] Ibid., p. 162, fn. 37.
[531] Born in 1942, Medgyessy workded in various positions for the Ministry of Finance between 1966 and 1987, including as Deputy Minister of Finance between 1982-1986 and Minister of Finance in 1987. Between 1988 and 1990 he served as Deputy Prime Minister, responsible for economic affairs, in the last 'communist' government, led by Miklós Németh. Following the regime change, Medgyessy moved from politics to the private sector, where he worked as President and Chief Executive Officer in the Hungarian branch of BNP Paribas, the global banking giant. He returned to domestic politics in the second half the 1990s, serving as Minister of Finance in the Horn-government between 1996-1998. After a second spell in the private sector, he returned to politics again in 2002, when he became Prime Minister of the second socialist-liberal coalition, after having defeated Viktor Orbán's right-wing coalition in the general elections.
[532] The quotes are here taken from an interview with Medgyessy, in Rádai, *Pénzügyminiszterek...*, p. 233. See also Swain, *Hungary: The Rise and Fall of Feasible Socialism*, pp. 16-17.

published in the same issue of *Közgazdasági Szemle* in which the reform document appeared. In it, the authors *acknowledged* that the reform programme's analysis of the situation was 'basically correct', but laid the blame for 'anti-reform tendencies' on the 'conservative opposition' within the ruling MSZMP.[533] Indeed, as Szelényi points out, the Economic Subcommittee took 'an even stronger pro-market reform stand' than 'Fordulat és Reform', which it attacked for overemphasising monetary policies.[534] Instead, the Economic Subcommittee emphasised the importance of changing property relations. It rejected the proposal to transform state-owned enterprises into joint-stock companies, but gave, as Szelényi notes, 'strong, though at crucial points qualified, support for the expansion of private business.'[535] For example, the document stated:

> If we want private entrepreneurs to invest their incomes in the expansion of their businesses, then we have to give *institutional guarantees* that, within certain limits, they can grow. We have to work out arrangements, which would gradually shift the growing private firms – *to the satisfaction of the private owners* – toward a social form of ownership.[536]

In the summer of 1987, an official statement by the MSZMP Central Committee on proposed economic and social reform, confirmed the ideological *volte face* that was underway within the party-state. The document stated: 'The second economy and the private sector are *integral* parts of the socialist economy [sic!]. All initiatives which contribute to the increase of the national income and to the amelioration of the living standard of the population should be encouraged.'[537] Although both party documents still abounded in socialist rhetoric, such as 'the leading role of the party' in the reform process, and avoided the question of political reform, it was increasingly clear that Hungarian society was about to undergo a fundamental transformation.

With hindsight then, it is hardly an overstatement that the publication of 'Fordulat és Reform' signalled an ideological breakthrough in Hungarian reform discourse. Indeed, many of the reform proposals formulated in the document could later be recognised in the economic and political reforms introduced by the last 'communist' governments of Károly

---

533 MSZMP, 'Az MSZMP KB gazdasági bizottságának állásfoglalása', *Közgazdasági Szemle*, 1987, Vol. 34, pp. 664-670.
534 Szelényi, 'Eastern Europe in an Epoch of Transition', p. 230.
535 Ibid.
536 MSZMP, op. cit., pp. 667-668 (my emphasis).
537 MSZMP 1987, here cited in 'Az MSZMP KB állásfoglalása a gazdasági-társadalmi kibontakozás progr-amjáról', 4 July 1987, pp. 1-2.

Grósz and Miklós Németh, such as the banking reform introduced in 1987, or the *Law on Business Organisations* and the *Law on Foreign Investment* which came into force on 1 January 1989.[538] Traces of the document were also visible in the numerous 'blueprints' for the transition that were drawn up in 1989-1990, from János Kornai's famous 'passionate pamphlet'[539], through the economic programmes of the Hungarian political parties vying for power[540], to the policy proposals of domestic and international economists and experts, such as the above mentioned Blue Ribbon Commission and Bridge Group, or those of the Battelle Memorial Institute[541], the IMF, World Bank, and OECD. As for the fate of the Institute of Financial Research, it was reopened in the autumn of 1987, after an alliance of private banks and large companies had joined together to resuscitate it as a private enterprise.[542] While the institute sought to continue the intellectual tradition represented by its reform workshop predecessor, many of the radical reform economists had by then moved on to become influential policymaking advisors to the government or the parties of the opposition, while others took up well-paid jobs in Hungary's rapidly developing private sector.[543]

Conclusion

This chapter began by outlining the way the ascendancy of neoliberalism in Hungary and elsewhere in Eastern Europe has been theorised in the literature. As we noted, most scholars have tended to conceptualise this process as either being driven 'from the outside' or in 'dialogue' between internal and external actors. However, despite their disagreements about the modalities through which neoliberalism allegedly 'conquered' the region, most scholars tend to argue that this process happened *after* the demise of 'actually existing

538 Andor, *Hungary on the Road to the European Union*, p. 21; Ripp, *Rendszerváltás Magyarországon, 1987-1990*, p. 37.
539 Kornai, *The Road to a Free Economy*.
540 For the economic programmes of the opposition parties, see Mihály Laki, 'Az ellenzéki pártok gazdasági elképzelései 1989-ben', *Közgazdasági Szemle*, 2000, Vol. XLVII, pp. 230-249.
541 The Battelle Group was funded by the Swiss government and the Jacobs Foundation, created by Klaus Johann Jacobs, the German-born billionaire and owner of Jacobs Suchard AG, the European coffee giant. The group was comprised of Western experts, who sought to formulate policy recommendations for the Hungarian government in order to facilitate the 'successful transformation and modernization of the Hungarian economy, to achieve sustained growth and higher living standards, and to allow Hungary to meet its external obligations.' The recommendations of the group are available in Hieronymi, *Economic Policies for the New Hungary*.
542 Interview with Z.M.P on 21 December 2011.
543 Interview with Z.M.P on 21 December 2011.

socialism' in 1989. The argument presented in this chapter has challenged this account in three important ways.

Firstly, we demonstrated how social forces promoting 'proto-neoliberal' ideas emerged in Hungarian society *before* the formal transition in 1989, in an attempt to solve the deepening crisis of the ailing state capitalist economy by reconfiguring it along neoliberal lines. Drawing on our broader theoretical framework of state capitalism theory, as well as neo-Gramscian political economy, we identified a group of radical reform economists, based at the influential Institute of Financial Research, as the 'organic intellectuals' of neoliberalism in Hungary. Also known as the 'Dimitrov Square Boys', in reference to the Karl Marx University of Economics in Budapest (where most of them received their schooling in neoclassical economics), the members of this group played a key role in influencing the transition through the articulation and promotion of certain ideas about the transition, and many of them would later go on to play an active role in the (neoliberal) transformation of Hungary *after* 1989.

Secondly, we illustrated how the 'Dimitrov Square Boys' envisaged the reconfiguration of the Hungarian economy in the late 1980s by analysing the contents of the influential 'Fordulat és Reform', described by one commentator as 'the key economic reform document of the decade'[544]. As we illustrated, it contained many ideas of the transition, which later came to be considered as essential features of neoliberal transformation in Hungary and elsewhere, including the deregulation of markets in order to facilitate export-led growth, the pursuit of restrictive fiscal policy, and privatisation of state-owned enterprises (although the latter was only implied in the document). Our general assessment of the programme was that it constituted what David Harvey has described as a 'class project'. However, contra Harvey (and others), we argued that the aim of the programme was not to 'restore' class power, but rather to 'retain' it, in order to save the Hungarian state from the organic crisis of state capitalism.

Thirdly, and finally, our analysis showed how the 'proto-neoliberal' ideas developed in 'Fordulat és Reform' became increasingly popular following its publication in 1987, so that by the time of the formal 'transition' in 1989-1990, they had become accepted as 'common sense' both amongst 'reformers' within the ruling MSZMP, as well as the parties

---

[544] Tőkés, *Hungary's negotiated revolution*, p. 203.

of the opposition. In this sense, the perhaps greatest contribution of 'Fordulat és Reform' and the influential 'Dimitrov Square Boys' that had put together the document, was to take what, even in the relatively liberal political environment of late Kádárist Hungary, had hitherto been considered renegade ideological, intellectual, and political positions and made them mainstream in reform debates. However, while the political project of constructing neoliberal hegemony in the late 1980s seemed to be relatively smooth and consensual, attempts to consolidate a distinct neoliberal regime of accumulation after the regime change would, as we set out to demonstrate in the next chapter, turn out to be much more uneven and contradictory.

The Consolidation of 'Neoliberalism with Hungarian Characteristics', 1990-2006

Introduction

In the previous chapter, we analysed the ascendancy of neoliberalism in Hungary in the 1980s. Contrary to dominant accounts in the literature, we demonstrated that neoliberalism was not an 'imported project', which arrived to Hungary from the West on the eve of the transition in 1989, but rather that it was promoted by domestic social forces in the 1980 as a solution to the organic crisis of the Kádár regime. In this chapter, we turn our attention to the reconfiguration of the Hungarian political economy *after* 1989, looking first at *how* neoliberalism was consolidated between 1990 and 2006, and secondly, analysing *what* were the outcomes of neoliberalisation in this period.

In the transformatology literature, Hungary has, as we have noted in passim, frequently been portrayed as a 'success story' of the transformation and propagated as a model to be emulated by other states in the region. The 'success' of Hungary's transformation is generally associated to a number of factors, including the fact that Hungary's 'double transformation' was achieved in a *shorter time* and was more *politically stable* than in many neighbouring 'post-communist' countries. Moreover, although Hungary's 'transition' from state-led capitalism to a free market economy resulted in a 'transformational recession' (between 1989-1993 economic output fell by more than 18 percent), which came with high social costs, the Hungarian economy returned to positive growth in 1994 and grew by almost 4 percent annually between 1997-2006 – a figure that was higher than many advanced capitalist states in the core of the world economy, such as the United States, Germany, and Japan, and also fared well in comparison with other economies in the region.[545] According to neoliberal economists and the representatives of international and regional bureaucratic institutions, the 'success' of Hungary's transformation was largely the result of the strong *continuity* of economic policy in favour of neoliberalisation, despite frequent change in ruling political parties in Budapest.[546] As we shall see in the analysis below, the main pillars of the Hungarian transformation were the rapid and comprehensive privatisation and simultaneous opening of the economy to international trade and foreign capital inflows. With more than 80 percent of the economy in private hands, one of the most open economies in the world, as measured by the UNCTAD Transnationalization Index,[547] and one of the lowest unemployment rates in the region, Hungary was in the mid-2000s seen to belong to the 'winners' of the transformation according to the proponents of neoliberalisation.

In contrast, institutionalist scholars, such as Amsden et al., Bohle and Greskovits, Stiglitz, have remained highly critical of neoliberal 'market fundamentalism' in the region. However, at the same time, they *also* contend that Hungary's transformation was a relative 'success story', *albeit for different reasons than those suggested by their neoliberal counterparts*.[548] Thus, Bohle and Greskovits argue that policymakers in the Visegrád states of the Czech Republic, Hungary, Poland, and Slovakia, were relatively successful in withstanding international and transnational pressures for neoliberal reform, opting instead to pursue economic policies that 'search[ed] for compromises between market transformation and social cohesion'.[549] The outcome, the authors claim, was a more 'embedded neoliberalism', as compared to the 'pure neoliberalism' found in the Baltic states, characterised by successful market transformation and the development of more

---

[545] Source: World Bank, World Development Indicators.

[546] See for example, Åslund, *Building Capitalism*... and *How Capitalism was Built…*; Csaba, *The New Political Economy of Emerging Europe*; EBRD, *Transition Report 2001*; Kornai, 'The Great Transformation of Central Eastern Europe'; OECD, *OECD Economic Surveys 2002*; World Bank, 'Central Europe's Ireland? Interview with Hungary's Economy and Industry Minister', *Transition*, 2002, Vol. 13, No. 6, pp. 24-26.

[547] The UNCTAD Transnationalization Index is calculated as the average of four different indicators: 1) FDI inflows as a percentage of gross fixed capital formation for the past three years; 2) FDI inward stocks as percentage of GDP; 3) total value added of foreign affiliates as a percentage of GDP; and 4) employment of foreign affiliates as a percentage of total employment in host economies. In Hungary ranked it as the sixth 'most open' developed economy in the world, after Belgium, Luxemburg, Estonia, Bulgaria, and Slovakia, in terms of transnationalisation, well ahead of most advanced capitalist states, including Germany, Japan, the United Kingdom, and the United States. UNCTAD, *World Investment Report 2008*, New York, NY: UNCTAD, 2008, p. 12, Figure I.7. See also Drahokoupil, *Globalization and the State in Central and Eastern Europe*, Table 2.8, p. 54.

[548] Bohle and Greskovits. *Capitalist Diversity on Europe's Periphery*; Stiglitz. *Globalization and its Discontents*.

[549] Bohle and Greskovits. op. cit., p. 22.

socially inclusive, albeit not always efficient, systems of democratic government.[550] According to Bohle and Greskovits, the economic achievements of the Visegrád states were particularly impressive, resulting in emergence of a regional 'manufacturing miracle'. As the authors asserted, 'Whether measured by its share in output, employment or total exports, the complex industrial sector's [chemicals, equipment, machinery, etc.] performance appears as remarkable … Even when compared with some of the giant NICs [the newly industrialised countries of southeast Asia], it is striking to recognize the extent of the region's success in attracting TNCs without whose involvement capturing large world market shares would not have been possible.'[551]

In what follows below, we shall put these different arguments to the test. Having said this, the next section of this chapter analyses who were central agents of neoliberalisation in Hungary after 1989 and what methods did they use in order to sustain this process. The third section then turns towards the three key areas of what we, following David Harvey, can describe as neoliberalism 'with Hungarian characteristics'[552], analysing the key outcomes of: a) privatisation; b) the inflow of foreign investment and multinational corporations to the Hungarian political economy; and c) the restructuring of labour after 1989. Finally, in the fourth section, we outline some of the contradictions and inherent limitations of this model.

Between Coercion and Consent: the Management of Neoliberal Reform in Post-transition Hungary

'A Difficult Beginning': The 'Gradualism' of the Antall Government, 1990-1994.

In May 1990, following Hungary's first democratic elections for more than 40 years, a nationalist-conservative coalition, dominated by the MDF, was formed. Headed by József Antall, a former librarian and historian who had been little known to the greater Hungarian

[550] Bohle and Greskovits, *Capitalist Diversity on Europe's Periphery*, pp. 3, 138-181.
[551] Ibid., p. 170.
[552] Harvey, *A Brief History of Neoliberalism*, p. 120-151.

public (let alone commentators in the West) before the elections, the government was faced with the difficult task of resolving the pressing social and economic problems of the time. The Antall government inherited a difficult economic situation from its ‘communist’ predecessors. The Hungarian economy had been stagnating from 1973 to 1990 – in contrast to the preceding period, between 1950-1973, when annual growth had averaged 3.6 percent, which was above or on par with most advanced economies.[553] Making matters worse, the newly formed government was also faced with the pressures resulting from what a number of Marxists have described as the deepening ‘fiscal crisis of the state’. By 1990, Hungary’s external debt exceeded US$ 21 billion (more than 50 percent of GDP), while its currency reserves was falling to critical levels (US$ 300 million).[554] As Drahokoupil notes, in the case of Hungary, the situation was worsened by the fact that most of country’s debt was in the form of state debt to private banks and low-cost bonds, which made debt repayment more difficult than to international financial institutions.[555]

In order to resolve Hungary’s problems, the government *officially* advocated a ‘gradualist’ strategy, based on Keynesian expansionary policies, emphasising public investment, provision of state subsidies to industry, and the devaluation of the *forint* to promote export-led economic growth.[556] This strategy was based on a fear of the potentially destabilising effects that neoliberal shock therapy would have on Hungarian society.[557] Within the government it was supported by the Minister of International Economic Relations Béla Kádár, and the Minister of Industry, Péter Á. Bod, but it was strongly opposed by the Minister of Finance, Ferenc Rábár, and technocrats in the MNB, which at the time was led by György Surányi, who instead urged the government to push ahead with neoliberal shock therapy.[558] György Matolcsy, who had moved on from the Institute of Financial Research to become Antall’s personal economic advisor, came to advocate a ‘middle road’

---

[553] Angus Maddison, ‘The Nature and Functioning of European Capitalism: A Historical and Comparative Perspective’, Valedictory Lecture at University of Groningen, 1 October 1997, published by *Banca Nazionale del Lavoro Quarterly Review*, December 1997, Table 9, p. 32.
[554] Drahokoupil, *Globalization and the State in Central and Eastern Europe*, p. 94; André Mommen, ‘Magyarország neoliberális forradalma. A kapitalista globalizáció sikertörténelme?’, *Eszmélet*, 2004, No. 63, p. 162.
[555] As Drahokoupil (op. cit., p. 102) explains, ‘In comparison with indebtedness to international lending agencies, indebtedness to private banks makes the debt renegotiation more difficult, but not impossible. However, bond-based refinancing made debt renegotiations unthinkable as there were no institutional means for renegotiating the debt to a multitude of private investors.’
[556] Andor, *Hungary on the Road to the European Union*, pp. 82-83.
[557] Ibid.; Mommen, op. cit., p. 162.
[558] Mommen, ‘Magyarország neoliberális forradalma’, p. 162; Rábár, here cited in Rádai, *Pénzügyminiszt-erek...*, pp. 19-22.

between these two positions.[559] The government's economic programme, entitled 'On the Road to National Renewal' (*A Nemzeti Megújhódás Programja*), was presented to parliament in May 1990 and reiterated Hungary's commitment to 'a free, socially oriented market economy, based on private property and free enterprise', but argued this could be achieved with minimum sacrifices from the Hungarian population.[560] Hence, Antall's strategy of a 'gradual' transformation, excluded the introduction of neoliberal shock therapy as pursued by the Solidarnosc government in Poland.[561] Perhaps not surprisingly, the programme received a frosty reception from the neoliberal economists, who dismissed it as being 'too vague' and 'lacking any concrete objectives'.[562]

However, although, the government officially advocated 'gradual' reforms, it seems that a sense of 'economic pragmatism' prevailed during the first months in power, propelled by the need to maintain debt payments as scheduled. Following pressure from the domestic and international financial community, large transnational corporations, and leading western states, the option of defaulting or rescheduling the foreign debt – an idea that was promoted by a group of influential businessmen, neoliberal economists, and politicians, such as the American-Hungarian business magnate and philanthropist George Soros, György Surányi, and other economists associated with the (neo)liberal SZDSZ – was dismissed by the government who feared that such a move would have 'weakened the country's image' on global financial markets and cut off the provision of further credit from institutional and private lenders.[563] Instead, it decided to pursue a strategy of rigorous debt repayment.[564] In the spring of 1991, this strategy was brazenly summed up by the

---

[559] Although, as Greskovits (in 'Brothers-in-arms or rivals in politics? Top politicians and top policy-makers in the Hungarian transformation', in *Reforming the State: Fiscal and Welfare Reform in Post-Socialist Countries*, edited by János Kornai, Stephan Haggard, and Robert R. Kaufman, New York, NY: Cambridge University Press, 2001, p. 121) points out, Matolcsy's 'views had originally been the closest to Rábár's'. See also Andor, *Hungary on the Road to the European Union*, p. 47; Denton, 'Intimate Network', p. 2.
[560] József Antall, *Selected Speeches and Interviews, 1989-1993,* edited by Géza Jeszenszky, Budapest: József Antall Foundation, 2008.
[561] Mommen, 'Magyarország neoliberális forradalma', p. 162.
[562] Mária Z. Petsching, *Örökségtől örökségig: A magyar gazdaság 1990-1994,* Budapest: Századvég Kiadó, 1994, pp. 36-60.
[563] It should be noted, however, that a similar policy *had* been pursued successfully by the Solidarnosc government in Poland in 1990. Drahokoupil, *Globalization and the State in Central and Eastern Europe*, p. 102; Eric Hanley, Lawrence King, and István Tóth János, 'The State, International Agencies, and Property Transformation in Postcommunist Hungary', *The American Journal of Sociology*, 2002, Vol. 108, No. 1, pp. 129-167; Greskovits, *The Political Economy of Protest and Patience*, p. 63 and *id*. 'Hungary's post-communist development in comparative perspective', in *Liberalization and its consequences: A comparative perspective on Latin America and Eastern Europe*, edited by Werner Baer and Joseph L. Love, Cheltenham: Edward Elgar, 2000, pp. 135-136.
[564] Drahokoupil, op. cit., pp. 102-103; Péter Mihályi, 'The Evolution of Hungary's Approach to FDI in Post-communist Privatization', *Transnational Corporations*, 2001, Vol, 10, No. 3, December, pp. 63-64.

Secretary of State in the Ministry of Finance Katalin Botos, as follows: *'We will pay our debt, even if the country goes onto the rocks.'*[565] As we shall see below, the decision to repay the country's external debt as scheduled would have crucial implications on the economic policies of the Antall government.

During the summer of 1990, the Antall government unveiled a number of economic reforms, including an ambitious privatisation programme (see section 3 below) and a series of public spending cuts and price increases. These reforms were in line with requirements from the IMF and were meant to show to foreign investors that Hungary was 'open for business'. However, when it announced plans to increase petrol prices by a massive 85 percent in late October 1990, private taxi and truck drivers staged spontaneous protests in Budapest, blocking all the major bridges and roads in the capital, thus effectively paralysing the transport system of the entire country.[566] Although the subsequent 'taxi blockade' (*taxisblokkád*) only lasted for three days, it turned out to be the greatest popular demonstration witnessed in the country since 1956 and was perceived as a 'national crisis' by representatives of the government as well as the media.[567] Although members of the government attempted to convince the demonstrators and the trade unions that the price increases were 'inevitable', they failed and were eventually forced to offer concessions.[568]

The taxi blockade debacle led to personal changes in the government. In late 1990, Rábár resigned from his post as Minister of Finance and was replaced by Mihály Kupa, a 'non-partisan' technocrat, who, as we noted in the previous chapter, had previously worked at the influential Institute for Financial Research, and has also served as personal advisor to Antall. Under Kupa, economic policy maintained a high degree of *continuity* with the brief Rábár era. Similar to Rábár, Csaba argues that Kupa was 'an avowed adherent of urgent fiscal reform', who also enjoyed broad support domestic and international financial circles, including the IMF.[569] In March 1991, Kupa presented his own programme for economic

---

[565] Botos, here cited in Pongrác Nagy, *From Command to Market Economy in Hungary under the Guidance of the IMF*, Budapest: Akadémiai Kiadó, 2003, p. 97 (my emphasis).

[566] The situation was worsened by the fact that since August 1990, the Soviet Union no longer supplied gasoline to Hungary, which added to the country's already precarious position in terms of energy management. By the time of the outbreak of the taxi blockade, Hungary's oil reserves were only believed to be sufficient for 3-4 days.

[567] Andor*, Hungary on the Road to the European Union*, p. 47.

[568] Ibid., pp. 47-48; Bohle and Greskovits. *Capitalist Diversity on Europe's Periphery*, p. 149.

[569] László Csaba, 'Hungary and the IMF: The Experience of a Cordial Discord', *Journal of Comparative Economics*, 1995, Vol. 20, No. 2, p. 223. See also Greskovits, 'Brothers-in-arms or rivals in politics?', p. 124.

reform, the 'Kupa Plan', which promised to broaden the liberalisation of foreign trade (including agriculture and food products), speed up the privatisation process, while, at the same time, maintaining debt repayments as scheduled and pursuing strict fiscal and monetary policies.[570] The proposed reforms were supposed to be implemented *gradually* (over a period of three years), but *consequentially*. The programme was highly optimistic about the future of the Hungarian economy. By 1994, it expected the economy to grow by an annual rate of 6 percent, led by a 7 percent annual growth of exports, while budget expenditures would fall from 64 percent in 1991 to 57 percent in 1994, and inflation brought down to single digit levels.[571] In order to achieve these goals, the programme proposed the introduction of a number of laws, which its author considered as 'fundamental' for the development of capitalism in Hungary.[572] For example it proposed the introduction of a *Bankruptcy Law* (realised in 1992), which saw more than 16,000 enterprises go bankrupt between April 1992 and December 1993.[573] Meanwhile, the *Accounting* and *Public Financing Laws* brought Hungarian accounting standards in line with those of the EU. Rábár had already suggested similar policies, but in contrast to the former's rather confrontational approach, Kupa was able to present his programme in way that appeared more *conciliatory* to critics of neoliberal reforms within the Antall government.[574] Any doubts about the feasibility of the Kupa programme were dispelled by the determined attitude of its architect, who argued that '*we are going to do this*'. Hence, the Kupa Plan was well received amongst economists and was passed with the full support of the opposition parties in parliament.

Yet, despite the 'unquenchable optimism' of Kupa and other neoliberal economists, both inside Hungary and abroad, economic growth showed no signs of materialising in the first half of the 1990s. On the contrary, in the first two years after the transition economic output *decreased* by 18.5 percent in Hungary, while industrial production fell by more than 25 percent in the period between 1989-1993.[575] Meanwhile, unemployment grew by more than 500,000 people in two years, and by 1994 the official unemployment rate was

[570] 'The Kupa Plan'. For a brief summary of the programme in Hungarian, see Petschnig, *Örökségtől örökségig*, pp. 65-69.
[571] 'The Kupa Plan', pp. 12-13.
[572] Kupa in Rádái, *Pénzügyminiszterek…*, p. 66.
[573] Csaba, 'Hungary and the IMF', p. 224.
[574] Petschnig, op. cit., pp. 65-69; Rádai, *Pénzügyminiszterek...*, pp. 37, 57-58.
[575] World Bank, *Hungary: Structural reforms for sustainable growth,* Washington, DC: World Bank, 1995, p. 2.

reaching 14 percent.[576] Wages plummeted and by the end of 1992 stood at 85 percent of their 1989 levels. As a result, inequality and poverty rates skyrocketed, causing some sociologists to warn of a possible ‘Latin Americanisation’ of Hungarian society.[577] The deep decline in food consumption in Hungarian households, depicted in the table below, provides a telling illustration of the widespread malaise characterising Hungarian society in the early years following the regime change. For a country renowned for its meat consumption, the nearly 15 percent decline of meat consumption between 1989-1994 provides striking evidence of the catastrophic impact of neoliberal restructuring on Hungarian society. Yet, despite these bleak figures, Hungary was a considered a *relative* ‘success story’ of neoliberal restructuring, as the situation elsewhere in CEE and the former Soviet Union was even bleaker.[578]

Table 5.1. Household consumption in Hungary, 1989-1994[579]

Year	Index of per capita consumption	Meat and fish products	Milk and dairy products	Eggs	Fats and oils	Cereals	Sugar	Potatoes	Nutriti materi (kJ/da
		(kg/year)		(pieces/ year)	(kg/year)				
1989	100.0	81.0	189.6	364	39.2	112.2	40.5	55.2	14,63
1990	94.8	75.8	169.9	389	38.6	110.4	38.2	61.0	14,16
1991	86.1	74.1	167.4	356	37.0	102.6	35.0	55.3	13,42
1992	86.1	75.2	159.1	338	37.5	105.6	39.5	56.0	13,74
1993	87.6	70.5	144.2	365	36.8	97.4	35.8	59.3	13,00
1994	87.6	69.0	140.0	338	38.1	91.3	34.2	58.2	12,66

As the economic problems of the country deepened, the Antall government faced a popular backlash. By 1992, opinion polls showed that the government’s unpopularity was reaching record levels, while there was a rise in support for opposition parties. Antall was also facing mounting opposition from within the national-conservative coalition. Members of the Independent Smallholders’ Party (FKGP), which since 1991 was led by the right-wing ‘populist’ József Torgyán, objected against the government’s policy to deny the restitution of land to its pre-1948 owners. While conservative members of the FKGP

[576] Andor, *Hungary on the Road to the European Union*, Table 1, p. 175.
[577] László Laki, *Rendszerváltás, avagy a “nagy átalakulás”*, Budapest: Napvilág Kiadó, 2009.
[578] Genov, *Global Trends in Eastern Europe*; Gowan, ‘Neo-Liberal Theory and Practice for Eastern Europe’; World Bank, *Transition – The First Ten Years*.
[579] Source: KSH, ‘Household income and consumption, 1960 – to present’. Available on: http://www.ksh.hu/docs/eng/xstadat/xstadat_long/h_zhc001.html (last accessed: 31 January 2013).

remained loyal to the Antall government, Torgyán and his allies went into opposition.[580] A more serious threat came from within the MDF itself. In a lengthy article published in *Magyar Fórum*, the weekly paper associated with the MDF, one of the party's deputy leaders, István Csurka, blamed the ills of the transformation on a conspiracy by 'foreigners' (led by the IMF, multinational corporations, leading Western governments, and domestic 'traitors', such as ex-communists, liberals, and Jews).[581] His position caused a political crisis within the MDF, as it became evident that his ideas were supported by a substantial – though not a majority – of party members.[582] The crisis was eventually resolved after Csurka was expelled from the party in May 1993. He responded by founding the Hungarian Justice and Life Party (*Magyar Igazság és Élet Pártja*, MIÉP), which openly advocated a far-right stance based on racism, anti-communism, and irredentist aims of restoring the borders of 'historical Hungary'.[583] Although Csurka's views were criticised from across the political spectrum, as well as by leading members of Hungary's cultural and intellectual elite,[584] the increasingly weak government 'felt the need to compromise with them.'[585]

Thus, in the year prior to the 1994 elections, the Antall government increasingly attempted to mask its difficulties by appealing to 'nationalist' and 'populist' ideas. Members of the government openly spoke of the need to create a 'national bourgeoisie' and began to take active measures in order to achieve this aim: the government imposed restrictions on foreign ownership in key economic sectors, such as banking, energy, and telecommunications; and implemented several policies promoting domestic accumulation of capital (discussed in further detail in section 3).[586] In February 1993, Kupa was replaced

[580] Mark Pittaway, 'Hungary', in *Developments in Central and East European Politics, Vol. 3*, edited by Stephen White, Judy Batt, and Paul G. Lewis, Basingstoke: Palgrave Macmillan, 2003, pp. 65-66.
[581] Andor*, Hungary on the Road to the European Union*, pp. 49-52, 76-77; Drahokoupil, *Globalization and the State in Central and Eastern Europe*, p. 104; Hanley et al., 'The State, International Agencies...', p. 153; Pittaway, 'Hungary', p. 66. For the original document, see István Csurka (ed), *Néhány gondolat és nyolc társgondolat*, Budapest: Magyar Fórum, 1992.
[582] In January 1993, at the MDF's 6th national conference, Csurka openly challenged Antall for the leadership of the party, but lost with a narrow margin, by a ratio of 674:536 votes.
[583] Andor, op. cit., pp. 50-52.
[584] Ibid. Within the MDF, Csurka was strongly criticised by József Debreczeni, an MP on the left wing of the party, who likened Csurka's views to 'Nazi ideology'. The main opposition to the growing xenophobia that was sweeping across Hungary at the time was, however, the 'Democratic Charta'. The Charta was a civil movement, which had been formed in September 1991 by a group of well-known artists, scientists, and also included members of the parliamentary opposition parties (FIDESZ, MSZP, and SZDSZ).
[585] Ibid., p. 51.
[586] Diczházi, 'The role of foreign capital', pp. 83-84; Drahokoupil, *Globalization and the State in Central and Eastern Europe*, p. 104; Hanley et al., 'The State, International Agencies...', pp. 153-157; Éva Voszka, 'Centralization, Renat-ionalization and Redistribution: Government's Role in Changing Hungary's Owner-

as Minister of Finance by Iván Szabó, a member of the MDF and former Minister of Trade, Commerce, and Tourism (1991-1993) and supporter of right-wing Keynesian economic planning.[587] Yet, despite some degree of withdrawal from neoliberalisation in a discursive sense (favouring 'domestic' instead of 'foreign-led' accumulation of capital), there was no major retreat from the changes previously engineered. Even after the death of Antall in December 1993 (following a long period of illness with cancer), the MDF-led government remained broadly committed to neoliberalisation, albeit now increasingly shrouded in 'populist' discourse.[588] This was, for example, evident in the government's approach towards foreign investment, which was welcomed by MDF politicians who argued that it was good for the country on the grounds that it brought jobs, contributed to technological upgrading, and helped Hungary's (re-)integration into the world economy.[589] As caretaking Prime Minister Péter Boross argued in 1994, 'FDI improves Hungary's prestige abroad'.[590]

Consolidating Neoliberalism through Socialist and Liberal Forces: The Horn government, 1994-1998

Ultimately, however, the government's attempt to salvage political power through 'populist' discourse turned out to be a failure. The parties of the nationalist-conservative coalition were trounced in the 1994 elections: the MDF lost 126 of its 164 seats in parliament, while the FKGP lost 18 of its 44 seats. The results were also a disappointment for the two parties of the liberal opposition, FIDESZ and SZDSZ, who failed to capitalise on the collapse of the Right and both lost seats. Instead, the big winner of the elections was the reformed Hungarian Socialist Party (MSZP), which won 33 percent of the votes, obtaining 209 out of 386 seats in parliament. Led by Gyula Horn, a longstanding member of the MSZMP and former Minister of Foreign Affairs in the Németh government, the party had won the elections on the back of growing discontent with the effects of transition-associated adjustment and nostalgia for the perceived 'achievements' of the

---

ship Structure', in *Strategic Choice and Path Dependency in Post-Socialism: Institutional Dynamics in the Transformation Process*, edited by Jerzy Hauser, Bob Jessop, and Klaus Jensen, Brookfield, VT: Edward Elgar, 1995, pp. 287-308.

[587] Szabó in Rádai, *Pénzügyminiszterek...*, pp. 90-94.

[588] Bandelj, *From Communists to Foreign Capitalists*, p. 76.

[589] Lawrence King and Balázs Váradi, 'Beyond Manichean Economics: Foreign Direct Investment and Growth in the Transition from Socialism to Capitalism', *Communist and Post-Communist Studies*, 2002, Volume 35, pp. 1-21.

[590] Boross, here cited in Bandelj, op. cit., p. 76.

Kádár regime, such as the provision of public welfare programmes and relative job security.[591] However, as we shall see below, the victory of the socialists would turn out to be pyrrhic.

Although the MSZP was the political heir of the MSZMP, 'intellectually its leading figures were products of the institutional and economic reforms of the 1980s. By the early 1990s, a number of them had become strongly neoliberal in orientation.'[592] Thus, in order to appease concerns in the West over the return of 'ex-communists' to power and to ensure himself of a two-thirds majority in parliament, Horn decided to form a coalition government with the (neo)liberal SZDSZ.[593] To further increase his credibility as a 'responsible statesman' committed to market reforms, Horn appointed László Békesi as Minister of Finance (he had previously held the same post in the Németh government).[594] According to Andor, Békesi was 'the archetype of the Socialist politician who was never seen releasing a positive comment on socialism in recent times. He would easily have found a job on the right wing of the British Conservative Party or the American Republican Party.'[595] In the 1980s, he had come under the personal influence of Milton Friedman,[596] and he was committed to implement a 'radical' neoliberal programme based on macroeconomic stability, wage reductions for public sector workers, liberalisation of trade, and the acceleration of privatisation.[597] His programme was supported by the IMF and the World Bank, domestic business circles, and the SZDSZ, as well as the liberal sections of the MSZP.[598] However, Horn refused the programme, partly because of opposition from the left wing of his own party and the trade unions.[599] Consequently, the government spent much of the first months in power bickering, while economic circumstances continued to deteriorate.

---

[591] Pittaway, 'Hungary', p. 67.
[592] Phillips et al., 'Usurping Social Policy', pp. 596-597.
[593] Gyula Horn, *Azok a kilencvenes évek*, Budapest: Kossuth Könyvkiadó, 1999, pp. 220-221. See also the interview with the former Chairman of the SZDSZ Gábor Kuncze in 'Egyenes beszéd', 30 July 2013. Available on: http://www.atv.hu/videok/video-20130730-kuncze-gabor (last accessed on: 30 July 2013).
[594] As László Andor has noted, '[i]n the eyes of SZDSZ and its foreign partners, Békesi represented a pledge for fiscal stringency and a continuation of the neoliberal course in general.' Cited in *id.* 'Medgyessytől Medgyessyig: Vázlat az MSZP gazdaságpolitikájának tizenöt évéről', in *Útkeresések: a magyar szociál-demokrácia tegnap és ma*, edited by István Feitl, György Földes, and László Hubai, Budapest: Napvilág Kiadó, 2004, p. 174 (my translation).
[595] Andor, *Hungary on the Road to the European Union*, p. 59.
[596] Békesi, here cited in László Fáy, *Ha majd a böseg kosarából…*, Budapest: Belvárosi Könyvkiadó, 1997, p. 14.
[597] Andor, *Hungary on the Road to the European Union*, p. 60; Phillips et al., 'Usurping Social Policy', p. 597.
[598] Andor, op. cit., pp. 59-60.
[599] Ibid..

Meanwhile, the Hungarian economy was rapidly heading towards the precipice. By early 1995, the external deficit exceeded 9 percent of GDP, the government's budget deficit had reached 8.4 percent of GDP, and the public debt was more than 85 percent of GDP.[600] Making matters worse, the value of the *forint* was decreasing and the government faced a capital flight, as anxious investors were withdrawing their assets from 'developing economies' following the onset of the Mexican 'peso crisis' in December 1994.[601] Békesi subsequently resigned as Minister of Finance in January 1995, after having failed to convince Horn of the need implement austerity measures. However, global financial markets, IFIs, and leading Western governments (in particular the United States, Germany, and Austria), as well as their neoliberal *confrères* in Hungary continued to impose economic and political pressure on the Horn government to implement radical austerity measures.[602] Eventually, the government decided to succumb to budgetary restraint and austerity, in order to ensure IMF funding. On 1 March 1995, Horn appointed Lajos Bokros as Minister of Finance, while György Surányi was appointed Governor of the MNB. As we pointed out in the previous chapter, the two were old friends and former colleagues at the Institute of Financial Research, and were leading advocates of neoliberal reform. The appointment of Bokros and Surányi was welcomed by international financial circles, Western governments, as well as leading coalition politicians, who all saw it as a move that would 'restore a measure of confidence' in the Hungarian economy.[603]

Enjoying the backing of both domestic and international financial circles, as well as leading politicians in Budapest, as well as abroad, Bokros and Surányi went on to prepare a radical austerity programme, which came to be known in popular discourse as the 'Bokros Package',[604] after its main architect. Similar to many neoliberal reform measures implemented elsewhere, from the New York City fiscal crisis in 1975, through the structural adjustment programmes imposed on many countries of the Global South in the

---

[600] Carlo Cottarelli, *Hungary: Economic Policies for Sustainable Growth*, Washington, DC: International Monetary Fund, 1998, p. 3; World Bank, *Hungary: On the Road to the European Union*, Washington, DC: World Bank, 1999, p. 37.
[601] Mommen, 'Magyarország neoliberális forradalma', pp. 164-165.
[602] Gowan, *The Global Gamble*, p. 280; Phillips et al., op. cit., pp. 597-598. For Prime Minister Horn's own account of the international pressures his government were facing during this period, see Horn, *Azok a kilencvenes évek*, pp. 219-381.
[603] Greskovits, 'Brothers-in-arms or rivals in politics?', pp. 132-133; Phillips et al., 'Usurping Social Policy', p. 597.
[604] Although, as Phillips et al. (op. cit., p. 604, fn. 16) note, 'Bokros and Suranyi were equally responsible for the development of the programme, but Bokros was its political champion and "public face".'

1980s, to the most recent austerity measures imposed on the governments of Greece, Ireland, Portugal, and Cyprus, by the unelected 'Troika' of the European Commission, European Central Bank (ECB), and the IMF, the Bokros Package had all the makings of a neoliberal *coup d'état*.[605] It was drawn up in absolute secrecy, circumventing democratic oversight and public debate, by a small working group of neoliberal economists, many of whom had been connected to each other through the influential Institute of Financial Research or the Ministry of Finance.[606] As the architects of the programme have confirmed in a number of highly revealing interviews and articles, this was by no means an 'accident' or a 'mistake'. On the contrary, as László Antal, a former colleague of the Institute of Financial Research and one of the contributors to the Bokros Package, later admitted with uncompromising honesty:

> *It is true: the preparation of the programme was like a putsch, without any prior discussions. It might sound cynical, but I am convinced that it could not have happened in another way.* (Around the world, similar programmes are prepared in the same way. At times like this, there is no consensus.) If the increase in wages had adjusted to the devaluation [of the *forint*] (and the import surcharge), and the expenditures of the budget to the inflation, then nothing would have happened. It would neither have improved the budget or balance of payments deficit, nor the competitiveness of our exports, but only lead to greater inflation.[607]

Less than two weeks after the appointment of Bokros and Surányi, on Sunday 12 March 1995, the Bokros Package was presented to the wider public – later known in Hungarian public discourse as 'black Sunday'. In an interview, made five years later, Bokros explained the 'logic' behind the austerity measures as follows:

> the main task [of the programme] was to restore Hungary's international competitiveness. Being a small country, we export most of our production, but we can only be competitive with our products on the world market if the Hungarian labour force is not too expensive, since we are mostly not offering high quality products, made with high technology, which the world market is ready to give any money, but we are in fact competing with the Czech Republic, Poland, Chile, Malaysia, and similar, semi-developed countries and their semi-

---

[605] Szalai, *Gazdasági elit és társadalom...*, p. 54. On the New York City fiscal crisis, see Harvey, *A Brief History of Neoliberalism*, p. 44-46.
[606] The group was headed by Bokros and Surányi, and also included other neoliberal economists associated with the Institute of Financial Research, such as László Antal, Tibor Draskovics, Csaba László, and Riecke Werner. On the preparation of the programme, see Andor, 'Medgyessytől Medgyessyig', p. 175; László Antal, 'A Bokros csomag', *Beszélő*, June 2000, pp. 82-91. Available on: http://beszelo.c3.hu/cikkek/a-bokros-csomag (last accessed on: 8 February 2013). 2000; Bohle and Greskovits. *Capitalist Diversity on Europe's Periphery*, p. 149; Bokros, cited in Rádai, *Pénzügy-miniszterek...*, p. 184; Greskovits, op. cit. p. 133.
[607] Antal, 'A Bokros csomag' (my translation and emphasis). See also Antal, cited in Greskovits, 'Brothers-in-arms or rivals in politics?', p. 133.

> developed products. Under such circumstances, the level of domestic wages is very important. If wages are too high in Hungary, then we will be less able to export our products, more factories will be destroyed, and more people will become unemployed. This is not compatible with my left-wing views; it does not fit into my perception of social solidarity that some people earn well, while the majority cannot find work. It is much better if many people earn less, but the majority works. And this – in a country where there is high unemployment – is very important for the trade unions to understand as well. … *Hence, in the short run, there is no other way to restore our international competitiveness – and this complies with the principle of solidarity –, than to reduce real wages, which enables more people to find work once the economy starts to recover.*[608]

As the table below indicates, the Bokros Package rested on two 'pillars', which were organised in terms of short- and long-term goals and designed in order to stimulate export-led economic growth and reduce Hungary's external debt. The first pillar was constructed by means of accelerating the privatisation programme and the second by the abolition of the universal welfare state. The programme explicitly ruled out the use of privatisation receipts to reduce the external debt; this was to be done instead by the abolition of family allowances, child- and maternity benefits, free higher education, the dismissal of 15 percent of civil servants, and the introduction of a wage freeze in the public sector. The *forint* was also to be devalued by nine percent and a so-called 'crawling peg' introduced (under which the national currency was devalued by 1.9 percent for another three months, which then decreased to 1.3 percent per month). In total, these measures were estimated to cut public spending by around HUF 200 billion (US$ 1.4 billion), and the budget deficit by one-third.[609]

---

[608] Bokros, here cited in Rádai, *Pénzügyminiszterek...*, pp. 193-194 (my emphasis).
[609] Mommen, 'Magyarország neoliberális forradalma', p. 165; *The Economist, 'Hungary: Radical at last'*, pp. 45-46. For Bokros' own conception of the package, see Bokros in Rádai, op. cit., pp. 188-194.

Table 5.2. Key elements of the 1995 austerity measures ('Bokros Package')[610]

	Short-term	**Long-term**
Budget	• Wage freeze • Public sector redundancies • Import surcharges	• Reduction of universal welfare benefits • Reduction of free access to higher education
Current account	• Import surcharges • 9 percent currency devaluation	• 'Crawling peg' exchange rate

The Bokros package constituted the largest austerity package hitherto introduced in post-transition Hungary and its introduction sparked fierce popular opposition. Throughout 1995 Hungary witnessed some of the largest protests by the organised labour movement since the transition as railway workers struck for 86 hours in April, while 160,000 people participated in a nationwide teachers' strike in December 1995.[611] The national-conservative opposition denounced the austerity measures, arguing that they 'unnecessary' and led to the 'skinning of the Hungarian people' (*népnyúzás*). The Bokros Package also led to an internal crisis within the MSZP; two socialist ministers resigned immediately in protest against the harshness of the package, with two more following suit before the end of the year.[612] But the socialist-liberal coalition held firm, and, echoing Thatcher's famous maxim 'There Is No Alternative', made it clear that there was no room for compromise. Apart from a few dissenting voices, most economists agreed that the austerity measures, albeit painful and unpopular, were 'necessary'.[613] Eventually the trade unions gave in, accepting that the unpopular measures were in the 'national interest'. Since the Horn government held a two-third majority in parliament, the operationalisation of the Bokros Package did not meet any obstacles in the legislature. However, in subsequent months the

[610] Source: Phillips et al., 'Usurping Social Policy', p. 598, Table 3.
[611] As one commentator reflected looking back on the number of anti-austerity protests that swept Hungary in that year, 'it's a wonder that all these protests did not coalesce into a broader movement of public anger.' László Kéri, *A rendszerváltás krónikája*, *1988-2009*, Budapest: Kossuth Kiadó/Népszabadság, 2010, p. 54 (my translation).
[612] In fact, as Andor (here cited in *Hungary on the Road to the European Union*, pp. 62-63) points out, on day that the Bokros Package was unveiled to the public, the vice-presided of the MSZP.Imre Szekeres, had stated that 'the government did *not* plan any measures to decrease living standards.' As Andor goes on to note, '[h]e [Szekeres], as leader of the parliamentary fraction, apparently had no information about what had been prepared.'
[613] For criticism of the Bokros package from Hungarian economists, see András Köves, 'Gazdaság és gazdaságpolitika Bokros után', *Társadalmi Szemle*, 1996, Vol. 51, No. 8-9, pp. 5-20; György Matolcsy, 'Kiigazítás recesszióval: kemény költségvetési és puha piaci korlát', *Közgazdasági Szemle*, 1997, Vol. 44, No. 9, pp. 782-798; Nagy, *From Command to Market Economy in Hungary*.

Constitutional Court – much to the irritation of Bokros – annulled a number of social measures related to the package on the ground that they were unconstitutional.

Notwithstanding the concerns about democratic accountability (or, rather, the lack thereof) and the effects of the austerity measures on Hungarian society, the Bokros package was hailed as a 'success story' by the advocates of neoliberal shock therapy both in Hungary and abroad. According to the IMF's Managing Director, Michel Camdessus, the austerity measures were 'courageous and substantive',[614] while the Director of the IMF's European I Department, Massimo Russo, praised Bokros for the 'achievements' of his package, which he argued had 'clawed the [Hungarian] economy back from the edge of a financial precipice'. He also reassured Bokros that he had the full backing of the IMF and 'the international community'.[615] A 1998 IMF report summarised the 'achievements' of the Bokros Package as follows:

> During 1995-97, the performance of the Hungarian economy improved in almost all respects. The most impressive result of the program was the dramatic turnaround in the external accounts, which is illustrated by two key statistics: the external current account deficit fell from 9 ½ percent of GDP in 1994 to a projected 2 ¾ percent of GDP in 1997; and net external debt was lowered from more than 45 percent of GDP to less than 30 percent of GDP. This turnaround benefited from favorable external conditions (the growth rate of imports of Hungary's partner countries was 7 percent in 1995-97, against 4 ½ percent during the first half of the 1990s), but should be credited primarily to the policies implemented by the authorities.[616]

In recognition of their 'achievements', Bokros and Surányi were awarded the title of 'Finance Minister of the Year' and 'Central Banker of the Year' respectively, by the

[614] Michel Camdessus, 'IMF, Hungary Continue Dialogue; Camdessus Welcomes Measures', IMF News Brief No. 95/14, 6 June 1995, Washington, DC: International Monetary Fund.
[615] As Russo (1995, here cited in Nagy, *From Command to Market Economy in Hungary*, p. 52, my emphasis) expressed in a private letter to Bokros (leaked by the latter to the Hunagrian press): '*we in the Fund, together with many others in the international community, subscribe fully to your vision for the Hungarian economy over the medium term.* You have spoken with some passion about a Hungary with falling external indebtedness, stable prices, lower taxes, and rising real living standards for all of the people – not just jobs, but good jobs with good prospects for Hungarian workers. We share too your assessment of *how* to get there: a package of fiscal retrenchment, wage restraint, monetary stringency, social security reform, and structural adjustment will entail some adjustment pains in the short run, but it is the only secure route to the vision you have for Hungary in the medium term.' On international praise for the Bokros package, see Virgina Marsh, 'Hungary: Austerity has paid off', *Financial Times*, 8 May 1998; Anthony Robinson and Virgina Marsh, 'Tough medicine puts new life in Hungary', *Financial Times*, 31 October 1995; *The Economist*, 'Hungary: Radical at last', 1 April 1995, pp. 45-46.
[616] Cottarelli, *Hungary: Economic Policies for Sustainable Growth*, p. 13.

prestigious global financial journal *Euromoney* in 1996, However, this was probably of little comfort to the former, who by then was the most unpopular politician of post-transition Hungary, and had resigned from his post.[617]

However, while the Bokros Package managed to keep the Hungarian economy from falling over the financial cliff, this came at the cost of rising social polarisation and public discontent in Hungary. In line with the aims of the package real wages fell drastically; decreasing by 17.2 percent in 1995-1996. Although there was a gradual increase from 1997 onwards, real wages had still not reached their 1990 levels by 2001.[618] Moreover, the introduction of the Bokros package also led to a rise in poverty and strengthened income polarisations in Hungarian society (both of which had been on the rise since the 1980s).[619] Working class people and the poor, who were the MSZP's traditional constituents, were particularly badly hit by the cuts in wages and public welfare services. As one Hungarian commentator later summed up, the Bokros Package effectively constituted an 'economic shock therapy "without anaesthesia".'[620] In addition, a series of corruption scandals involving high-ranking government officials connected to the privatisation process generated considerable public discontent against the socialist-liberal government.[621] However, despite these 'achievements', the Bokros Package would, as we shall see below, ultimately fail to correct the inherent structural contradictions of the Hungarian political economy and stimulate sustainable economic growth over the long-term.

Experimenting with 'Populist Neoliberalism': The Orbán government, 1998-2002

Although the socialist-liberal government managed to restore the 'competitiveness' of the Hungarian economy, it paid a heavy price for this at the 1998 general elections. While the

---

617 *The Economist*, 'Hungary: Knifeman knifed (Finance Minister Bokros resigns)', 24 February 1996.
618 Klára Fóti, *Alleviating Poverty: Analysis and Recommendations. Human Development Report for Hungary, 2000-2002*, Budapest: Institute for World Economics of the Hungarian Academy of Sciences and United Nations Development Programme (UNDP), 2003, Table 1.2, p. 12.
619 Ibid., p. 30-58.
620 Lengyel, here cited in Károly Tardos, *Felzárkózás vagy lemaradás?: beszélgetések a magyar gazdaság-politika elmúlt húsz évéről,* Budapest: Gondolat Kiadó, 2010.
621 The most infamous corruption scandal was the so-called 'Tocsik affair', explained in further detail on pp. See also Éva Inzelt, 'White collar crime during the political and economic transition in Hungary', *US-China Law Review*, 2011, Vol. 8, No. 2, pp. 352-379; József Mocsáry, 'Visszapillantás a privatizációra', *Eszmélet*, 2001, Vol. 13, No. 52, pp. 4-39.

MSZP won 33 percent of the popular vote, it lost more than one-third of its seats in parliament due to Hungary's disproportional electoral system. The (neo)liberal SZDSZ fared much worse, however, losing more than half of its electorate (down from 19.7 percent in 1994 to 7.9 in 1998) and nearly two-thirds of its seats in parliament. While the socialist-liberal vote deteriorated, support for the Right increased. As a result, the far-right entered parliament, for the first time since 1989, with Csurka's MIÉP party obtaining 5.5 percent of the popular vote and 14 seats in parliament. However, the big winner of the elections was FIDESZ, which became the biggest party in parliament with 148 seats. Originally a libertarian party (as late as 1992 FIDESZ had joined the Liberal International, ahead of the SZDSZ), the party had started to move to the Right from 1993 and onwards.[622] Led by the young and charismatic Viktor Orbán, it now formed a national-conservative coalition together with the FKGP and MDF. The newly formed Orbán government was comprised of 16 ministers, out of which 8 were non-partisan technocrats. Interestingly, both the post as Minister of Economy and Minister of Finance were awarded to well-known liberal economists, Attila Chikán and Zsigmond Járai respectively. As André Mommen has pointed out, the general message that the Orbán government sought to convey to foreign investors and politicians in the West was that 'Hungary had changed government, but not economic policy.'[623]

While scholars and political commentators, both on the Left and Right, have tended to describe the economic policies pursued by the Orbán government as an aberration from the neoliberal consensus, we argue that they might arguably best be understood as an example of what Kurt Weyland has described as 'neoliberal populism', characterised by a support for market competition together with a 'top-down approach to decision making' and an opposition towards 'special interest groups' (civil society, established politicians and government bureaucrats, and trade unions).[624] On certain areas, this meant a much stronger degree of *continuity* with the neoliberal policies pursued by the socialist-liberal government than what might have been inferred from FIDESZ's election manifesto. The government pledged to reduce inflation and unemployment, cut taxes and social insurance

---

[622] Andor, *Hungary on the Road to the European Union*, pp. 68-72; András Bozóki and Eszter Simon, 'Hungary since 1989', in *Central and Southeast European Politics Since 1989*, edited by Sabrina P. Ramet, Cambridge: Cambridge University Press, 2010, p. 215. For a detailed account of the political transformation of FIDESZ, see Edith Oltay, *Fidesz and the Reinvention of the Hungarian Centre-Right*, Budapest: Századvég Kiadó, 2012.
[623] Mommen, 'Magyarország neoliberális forradalma', p. 168 (my translation).
[624] Weyland, 'Neoliberal Populism in Latin America and Eastern Europe', pp. 381-383.

contributions, and to bring down the budget deficit, which stood at 4.5 percent of GDP in 1998, in line with the Maastricht criteria. Finally, Orbán also reaffirmed Hungary's commitment to economic and political reintegration with the West. In March 1999, Hungary became a member of NATO, and the government continued negotiations about EU membership, although it was becoming increasingly frustrated by the slow speed at which discussions with Brussels proceeded.[625] However, there were *discontinuities* as well.

Closer to home, the national-conservative government was keen to transmit a different message. Under Orbán's leadership the idea of building a 'national bourgeoisie', which, as we discussed earlier, had been championed by the first national-conservative government between 1990-1994 (albeit with limited success), was resurrected. Similar to Antall, Orbán believed that a strong Hungarian economy could be built on the backbone of a small number of Hungarian-owned transnational corporations, supported by small- and medium sized family-owned companies, rural farmers, and the Church.[626] In a 1994 interview with József Debreczeni, he outlined his vision of how this was to be achieved:

> You ought to identify eight to ten large businessmen, who would go on to become Hungary's big capitalists. And then you should have supported them – not directly through the government, but simply, through banking relationships. A personal relationship ought to have been developed with them, which they then would be able to use on the market in order to gain a competitive advantage. That relationship would then connect them to Prime Minister of Hungary, or his personal circle. True, certain spheres of the economy would have been handed over to the interest sphere of eight to ten big capitalists. However, this could safely have been allowed, since it has happened anyway. It is inevitable that, sooner or later, the economic map of the country will look like this anyway. …
>
> This is what ought to have been done. Make it clear to the bankers that these are our eight to ten people, then leave it to the logic of the market to handle the rest. Perhaps they could have been provided further assistance in the … development funds and projects, but even there it should be done modestly, without exceeding the boundaries of "good taste"…[627]

[625] As Orbán put it at the time: 'It is no tragedy if we do not gain accession in 2003. Currently, we are not members of the Union, and, as we can see, there is life outside the EU as well. But this is not what we are preparing us for. We seek integration because it would give a new boost to our economic development.' Interview with Orbán in Albert Gazda and Marianna Mucsányi, 'Együtt kell élni politikai ellenfeleinkkel', interview with Viktor Orbán, *Világgazdaság*, 17 December 1999 (my translation).
[626] Mommen, 'Magyarország neoliberális forradalma', p. 171; Oltay, *Fidesz...*, p. 130-133.
[627] Orbán 1994, here cited in József Debreczeni, *Orbán Viktor*, Budapest: Osiris Kiadó, 2002, pp. 273 (my translation).

As we shall see in the next chapter, these words turned out to be a premonition of the economic policies pursued by the second Orbán government after it was catapulted back into power in 2010.

Orbán frequently invoked 'nationalist' rhetoric in order to describe his economic policies. He criticised the socialist-liberal coalition for being 'the most corrupt' since the end of 'communism', and accused it for 'selling out' the country to 'foreigners'. In order to satisfy political allies, he promised to keep agricultural lands in 'Hungarian hands', a particularly important issue for the Independent Smallholders and the far-right. Moreover, he spoke passionately about the 'spiritual and cultural reunification of the Hungarian people', including the roughly 2.4 million ethnic Hungarians living in neighbouring Romania, Serbia, Slovakia, and Ukraine. For example, Transylvania, he said, was 'part of Hungary's living space in the Carpathian basin', adding self-assuredly that once the countries of CEE gain accession to the EU, then 'borders [will] have no importance'. Understandably, comments like these caused considerable discomfort amongst the socialist-liberal opposition at home, politicians in neighbouring countries, as well as in Brussels and Washington. Moreover, the government's incapability, or at times unwillingness, to silence Csurka's far-right MIÉP party, did not improve the Orbán government's reputation either.[628]

However, Orbán's shift to the Right was not merely ideological, but also constituted a political response to the material constraints of an increasingly crisis-prone world economy. Rather than unleashing a new, unprecedented phase of capitalism characterised by high growth, soaring profits, new jobs, and, as the UK Chancellor and future Prime Minister George Brown often repeated in the late 1990s and early 2000s, 'an end to boom and bust',[629] the neoliberal era of capitalism has turned out to been characterised by low economic growth (with noticeable exceptions, like China), high unemployment, and, recurring crises.[630] When the Orbán government assumed power in 1998, the Russian financial crisis was reaching its zenith. As Russian stock, bond, and currency markets collapsed, the Budapest Stock Exchange plummeted, falling from its record level of 9,016

[628] Mommen, 'Magyarország neoliberális forradalma', pp. 168-171; Pittaway, 'Hungary', pp. 69-71; *The Economist*, 'Viktor Orban, an Assertive Hungarian', 28 February 2002.
[629] Deborah Summers, 'No return to boom and bust: what Brown said when he was chancellor', *The Guardian*, 11 September 2008.
[630] On the 'achievements' of neoliberalism, see for example Harman, *Zombie Capitalism*, pp. 229-253; Harvey, *A Brief History of Neoliberalism*, pp. 152-182.

points in April 1998 to 3,775 points in September 1998.[631] In order to stave off the risks of contagion, and ensure Hungary's fragile economic recovery, the government resorted to what Phillips et al. have described as 'right-Keynesian'[632] economic policies. In 2001, the government launched a comprehensive social and economic development programme, known as the *Széchényi Plan*. Named symbolically after Count István Széchényi (1791-1860), the great Hungarian reformer of the 19th century, the programme aimed to boost economic growth and domestic consumption through the promotion of large-scale 'public-private partnership' (PPP) programmes focussing on the development of transport and infrastructure, tourism, public housing, research and development (R&D), and small and medium-sized businesses.[633] Between 2001-2002, the programme distributed grants in the value of HUF 200 billion, in order to generate investments valued at HUF 600 billion. Annually, between 10-15,000 houses were built and 46,000 workplaces created.[634] The government also carried out a radical reform of the state administration, which resulted in the centralisation of power in the hands of the newly created Prime Minister's Office, effectively rendering it 'a new ministry beyond the control of Parliament.'[635] At the same time, measures were taken to curb the power of organised labour. For example, the Ministry of Labour was abolished and brought under the control of the Prime Minister's Office, while the National Council for Interest Reconciliation (*Nemzeti Érdekegyeztető Tanács*, NÉT)[636] was dissolved and the Labour Code amended, imposing restrictions on the trade unions in the workplace.[637] These moves were not, as supporters of the government or neoliberal economists argue, simply the unfortunate outcome of necessary 'economic belt-tightening' or the 'need to streamline the state's institutional framework'.

---

631 Mommen, 'Magyarország neoliberális forradalma', p. 169.
632 Phillips et al., 'Usurping Social Policy', p. 600.
633 The programme was developed by György Matolcsy, former member of the Insitute of Financial Research, who had replaced Chikán as Minister of Economy in 1999. It was prepared in collaboration with politicians, foreign investors, and various business associations and interest groups, such as the Confederation of Hungarian Employers and Industrialists (*Munkaadók és Gyáriparosok Országos Szövetsége*, MGYOSZ) and the National Association of Large Families (*Nagycsaládosok Országos Egyesülete*, NOE). Bohle and Greskovits. *Capitalist Diversity on Europe's Periphery*, p. 177; Phillips et al., op. cit., p. 600. For a detailed account of the Széchényi Plan, see György Matolcsy, *Élő emlékeink: a Széch-enyi Terv világa*, Budapest: Válasz Könyvkiadó, 2002.
634 Oltay, *Fidesz...*, p. 132.
635 Phillips et al., op. cit., p. 599.
636 The NÉT was originally established in 1988 (although it only began to operate in 1990), as a tripartite body responsible for resolving labour disputes, setting minimum wages in industry, and health and safety concerns. Although the council was officially 'neutral', it was balanced in favour of employers in practice, with the council comprised of nine employers' representatives against six trade union representatives. Jeffries, *Socialist economies and the transition to the market*, p. 423.
637 Bohle and Greskovits, *Capitalist Diversity on Europe's Periphery*, p. 150; András Körösényi, *A magyar politikai rendszer*, Budapest: Osiris Kiadó, 2002, p. 20.

Rather, they need to be understood as integral parts of a dual strategy: first, to continue the process of capital accumulation, creating both capital and wage-labourers. And second, to ensure capitalist hegemony by 'eliminat[ing] the possibility of a coordinated challenge to the government over labour relations and labour issues more generally.'[638]

As the examples above indicate, the economic policies pursued by the Orbán government did not represent an aberration from an imaginary neoliberal 'norm', but should rather be understood as an inflection of neoliberalism.[639] Similar combinations of 'populist' rhetoric with the pursuit of neoliberal economic policies were discernible elsewhere in the 1990s and early 2000s, ranging from the populist governments of Carlos Menem and Silvio Berlusconi in Argentina and Italy to the neoconservative Bush administration in the United States.[640] In fact, as Harvey cogently argues, 'populist' discourse is *integral* to neoliberalism:

> the neoliberal state needs nationalism of a certain sort to survive. Forced to operate as a competitive agent in the world market and seeking to establish the best possible business climate, it mobilizes nationalism in its efforts to succeed. Competition produces ephemeral winners and losers in the global struggle for position, and this in itself can be a source of national pride or of national soul-searching.[641]

Hence, notwithstanding his 'populist' rhetoric, Orbán remained an acceptable guarantor of neoliberal reform in Hungary according to the representatives of capital. This was the implicit message of an article in *The Economist* written on the eve of the 2002 elections:

> Mr Orban may be an awkward neighbour and a rough opponent. He may prove a tricky European. But he is an able leader of a new breed of Central Europeans for whom joining the EU is mainly a matter of self-interest … Brussels bigwigs are rightly warier of telling such people what to do. They may even suck their teeth and shut their eyes if horrid Mr Csurka helps keep Orban in power.[642]

---

[638] Phillips et al., 'Usurping Social Policy'p. 600.
[639] On the 'neoconservative turn' in politics, see Harvey, *A Brief History of Neoliberalism*, pp. 81-86.
[640] Weyland, 'Neoliberal Populism in Latin America and Eastern Europe', pp. 379-401.
[641] Harvey, op. cit., p. 85.
[642] *The Economist,* 'Viktor Orban'.

Attempting a Balancing Act: Gyurcsány, the 'Josephinist'[643]

Following a fiercely contested electoral campaign the national-conservative coalition was narrowly defeated in the 2002 elections by the MSZP, who formed a coalition government with the neoliberal SZDSZ. The new cabinet was headed by the non-partisan technocrat Péter Medgyessy, who had previously served as Minister of Finance twice (in 1987 and, again, between 1996-1998), and also worked for a number of Western banks based in Hungary. The new government promised quick accession to the EU and further neoliberal reforms, including the liberalisation of telecommunications market, privatisation of the health care sector, and bringing down inflation and the budget deficit to below 3 percent.[644] Yet, at the same time, it also provided a 50 percent wage increase for some 600,000 teachers and public sector workers, as well as increased benefits for university students, pensioners, and the poor, as part of its electoral manifesto promising a 'change of the welfare regime' (*jóléti rendszerváltást*). These measures amounted to nearly HUF 190 billion and resulted in a deterioration of the government's budget deficit, from 4.1 percent of GDP in 2001 to 9.4 percent in 2002.[645] The measures were strongly criticised by the parliamentary opposition, neoliberal economists, and the EU and IMF, who argued that they were 'populist' and 'irresponsible', and would lead to a deterioration in the 'competitiveness' of the Hungarian economy.[646] Medgyessy also faced personal criticism from national-conservative forces inside and outside parliament, after an article published by *Magyar Nemzet*, a conservative newspaper affiliated with FIDESZ, revealed that he had worked as a counterespionage officer in the III/II section of the Ministry for Internal Affairs during the Kádár era.[647] The Prime Minister admitted to this, but claimed that his duties were confined to securing Hungary's IMF membership (which was opposed by the Soviet Union).[648] However, in Hungary's increasingly polarised political climate, the revelations were highly controversial and further strengthened political tensions.

---

[643] The term is here used to describe the analogies between the reforms pursued by Prime Minister Gyurcsány and Joseph II's (1741-1790) attempt to reform the Habsburg Empire 'from above', in order to promote the economic development.

[644] It should be pointed out that these reforms were in line with the demands of the EU, IMF, World Bank, etc.

[645] Mommen, 'Magyarország neoliberális forradalma', p. 172.

[646] Tibor Gazsó, András Giró-Szász, and István Stumpf (eds.), *A jóléti rendszerváltás csődje: a Gyurcsány-kormány első éve*, Budapest: Századvég Kiadó, 2003; IMF, 'Hungary: Selected Issues', IMF Country Report No. 03/125, May 2003, Washington, DC: International Monetary Fund.

[647] Matild Torkos, 'Titkos ügynök a kormány élén', *Magyar Nemzet*, 18 June 2002.

[648] Kate Connolly, 'Hungarian PM admits he worked as a spy catcher', *The Guardian*, 20 June 2002.

Following prolonged disputes with its junior coalition partner, Medgyessy was forced to resign in August 2004, after SZDSZ revoked its trust in the Prime Minister. He was succeeded by the young, ambitious pro-reformer Ferenc Gyurcsány. As G.M. Tamás has argued, Gyurcsány's career summarised 'the unique blend of the outsider, the emerging, defiant reactionary, self-taking arrogance, and the desire to assimilate to those who are superior.'[649] Having grown up in poor conditions in Pápa, a small town in Northwestern Hungary, Gyurcsány had climbed the social ladder during the heydays of the Kádár era, to become a leading member of the Communist Youth League (*Kommunista Ifjúsági Szövetség*, KISZ) in the late 1980s. After the democratic transition, he moved into the private sector, setting up his own enterprise specialising in construction and financial wealth management. By 2002, he had risen to become Hungary's 50th wealthiest person. In the same year, he returned to politics, becoming a strategic advisor to Medgyessy, and, after the victory of the socialists, was rewarded with the post of Minister for Sports, Youth, and Children.[650] Following the resignation of Medgyessy, the socialist-liberal coalition united behind Gyurcsány, in the hope that he would manage to break with the problems associated with the Medgyessy government and salvage the situation before it was too late.[651] Gyurcsány employed his newly obtained powers to pursue a policy further economic and political liberalisation, including an acceleration of privatisation and European integration. Drawing inspiration from Anthony Giddens and Tony Blair, he also promised to turn the MSZP from an 'outdated', 'reform communist' party into a 'modern', Western-style social-democratic party, which promoted social justice and equal opportunities, while at the same time supporting competitive markets and foreign investment.[652] These measures were welcomed by domestic business circles, neoliberal economists, and international and regional bureaucratic organisations, who saw them as

---

[649] Gáspár M. Tamás, 'Képek Gyurcsány falán', *Élet és Irodalom*, Vol. 51, No. 34, 24 August 2007. See also Korkut, *Liberalization Challenges in Hungary*, pp. 42-43.
[650] *New York Times*, 'Hungary: Tycoon Picked as New Premier', 26 August 2004; Origo.hu, 'A 100 leggazdagabb magyar', 2002. Available on: http://www.origo.hu/uzletinegyed/hirek/2002111541tol.html (last accessed on: 20 May 2009); *The Economist*, 'Revolving doors: A new prime minister steps up', 26 August 2004.
[651] In June 2004, the socialist-liberal coalition was trounced in the European parliamentary elections: FIDESZ obtained 47.4 percent of the vote, while the parties of the socialist-liberal coalition received 34.3 (MSZP) and 7.7 (SZDSZ) percent respectively. Moreover, opinion polls in the summer of 2004 seemed to confirm this trend. By August 2004, the MSZP was more than 10 points behind the leading party of the opposition, FIDESZ. See Tibor Gazsó and István Stumpf (eds.), *A jóléti rendszerváltás csődje: a Gyurcsány-kormány első éve*, Budapest: Századvég Kiadó, 2005, Table 1, p. 15.
[652] Korkut, *Liberalization Challenges in Hungary*, p. 43. On Gyurcsány's relation to Blair and Giddens, see interview with Gyurcsány in Eszter Rádai, 'Elsiették a támadást', interview with Ferenc Gyurcsány, *Mozgó Világ*, December 2003 and Adam Lebor, 'New Labour is Still Cool – In Hungary', *New Statesman*, 15 May 2006.

'necessary', initial step towards the implementation of 'structural reforms'. Although the main opposition party, FIDESZ, tried desperately to destabilise the government, denouncing the Hungarian Left as 'unfaithful to the nation'[653] and questioning the methods of Gyurcsány's enrichment, while, at the same time, outbidding the MSZP in offering generous welfare provisions, it was not able to stop the ruling socialist-liberal coalition from securing a 'historic' victory, becoming the first 'post-communist' government in CEE to win re-election.[654] However, as we shall see in section 4, Gyurcsány's victory would soon turn out to be bittersweet.

The Neoliberal Restructuring of the Hungarian Political Economy

The Panacea of Privatisation

Following the demise of 'actually existing socialism' in Eastern Europe in 1989, the most pressing task from the point of view of neoliberal economists, international and regional bureaucratic organisations, representatives of transnational corporations, and governments on both sides of the former Berlin Wall became privatisation, which was promoted with messianic fervour as a universal panacea for rapid transformation. The rationale for privatisation was summed up by a 1996 World Development Report as follows:

> At the heart of the transition lies a change in incentives, none more important than those for managers of enterprises. Managers in centrally planned economies faced distorted incentives that sooner or later led to poor enterprise performance. Transition requires changes that introduce financial discipline and increase entry of new firms, exit of unviable firms, and competition. These spurs needed restructuring, even in state enterprises. Ownership change, preferably to private ownership, in a large share of the economy is also important. Once markets have been liberalized, governments cannot indefinitely control large parts of a dynamic, changing economy. Decentralizing ownership is the best way to increase competition and improve performance.[655]

---

[653] Viktor Orbán, 'Magyarország jövője jövőre', speech at the 15th Summer University and Youth Camp in Băile Tușnad (*Tusnádfürdő*), Romania, 23 July 2005.
[654] Bohle and Greskovits. *Capitalist Diversity on Europe's Periphery*, pp. 178-179; Sándor Révész, 'A Fidesz átmenetele – 2006', *Népszabadság*, 4 June 2012; *The Economist*, 'Hungary's election: the re-election precedent', 27 April 2006.
[655] World Bank, *From Plan to Market*, p. 44.

As political economists have noted, privatisation was promoted by local and international ruling classes for a variety of reasons.[656] From a *politico-juridical* point of view, privatisation became a method for what Stephen Gill has defined as ‘constitutionalising capital’,[657] by transferring property rights from the state to private investors and putting in place measures which ensured that free enterprise became the primary vehicle for capital accumulation. In this regard, privatisation was presented as the backbone of a successful market economy, which would ensure the creation of a strong domestic bourgeoisie supportive of liberal democratic values in the countries of post-Soviet CEE.[658] Privatisation also made ‘sense’ for *economic* reasons. Supporters of privatisation promoted it as a quick fix to ‘the fiscal crisis of the (capitalist) state’, which, as we noted in chapter 3, had become an increasingly pressuring concern for governments across the world since the late 1970s and early 1980s. Selling off state-owned enterprises to foreign investors thus promised to generate much-needed cash for ailing state treasuries, while, at the same time, spurring the arrival of foreign direct investments and technological know-how to the ‘transition economies’. Moreover, privatisation was also touted by neoliberal economists as a way of ensuring better management of remaining state owned enterprises, as it was argued that by exposing them to increasing competitive pressures would increase efficiency and productivity, improve product quality, and reduce costs, both directly to consumers through cheaper products and services, as well as indirectly by reducing the tax burden.[659] However, as Marxist political economists point out, privatisation was also advantageous to international ruling classes, as it provided them access to the ‘crown jewels’ of the ex-state capitalist economies by putting them on sale for the predations of their multinational firms soon as possible.[660]

As we describe in this section, the privatisation process in Hungary can be divided into roughly four periods: a first phase, from 1990 to 1992, in which the Antall government’s determination to repay Hungary’s foreign debt led to a privatisation strategy prioritising

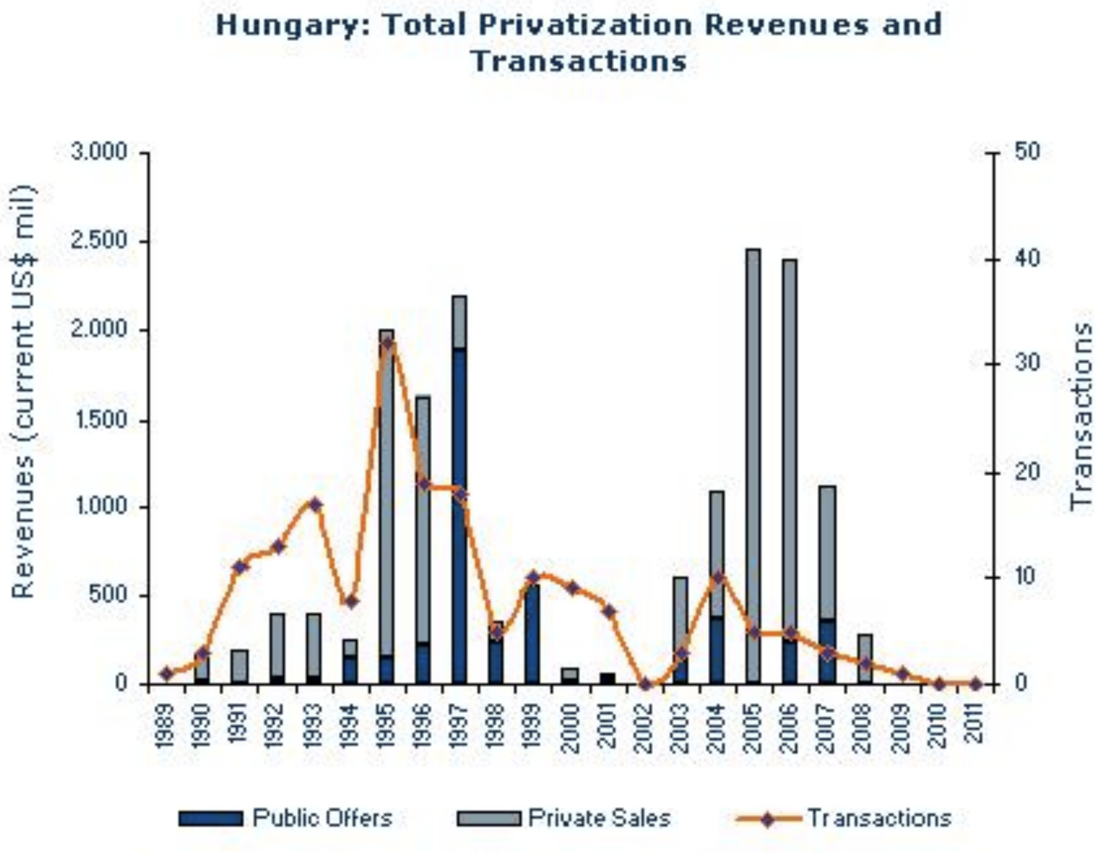
[656] Hardy, *Poland’s New Capitalism*; Gowan, ‘Neo-Liberal Theory and Practice for Eastern Europe’; Shields, *The International Political Economy of Transition*.
[657] Gill, ‘Constitutionalising Capital’, pp. 47-69.
[658] See for example Kornai, *The Road to a Free Economy*.
[659] For neoliberal views on privatisation, see Åslund, *Building Capitalism...*, pp. 255-303; Robert Frydman and Andrzej Rapaczynski, *Privatization in Eastern Europe: Is the State Withering Away?*, Budapest: Central University Press, 1994. For Marxist critiques, see Gowan, op. cit.; Hardy, op. cit.; Harvey, *A Brief History of Neoliberalism*.
[660] Hardy, op. cit., p. 59.

the sale of state owned enterprises to foreign investors. Second, a brief *intermezzo* between 1993-1994, in which the government attempted to constitute a national bourgeoisie following growing resistance against ‘foreign’ capital. A third phase from 1995 and onwards, during which Gyula Horn’s socialist-liberal government surrendered to domestic and international pressures and accelerated the privatisation process, leading to the wholesale privatisation of entire sectors of the economy, such as banking, energy, and telecommunications. As a result, by 1999, the private sector accounted for 80 percent of GDP (highest in the region together with the Czech Republic), with foreign capital dominating key sectors of the economy, domestic capitalists controlling a sizeable number of businesses in labour-intensive sectors of the economy, and the state left in control of a few hundred firms in strategic sectors such as defence, steel, transport, and agriculture.[661] A fourth wave of privatisation was initiated in 2003, focussing on sectors that EU competition policy had opened up for the exploitation of large transnational corporations. This final wave of privatisation has primarily focussed on banks, steel, telecommunications, and transport (including the airport of Budapest).[662] The figures below provide a summary of the four phases of privatisation in Hungary.

[661] World Bank, *Transition – The First Ten Years*, p. 6. See also Drahokoupil, *Globalization and the State in Central and Eastern Europe*; Hanley et al., ‘The State, International Agencies...’.

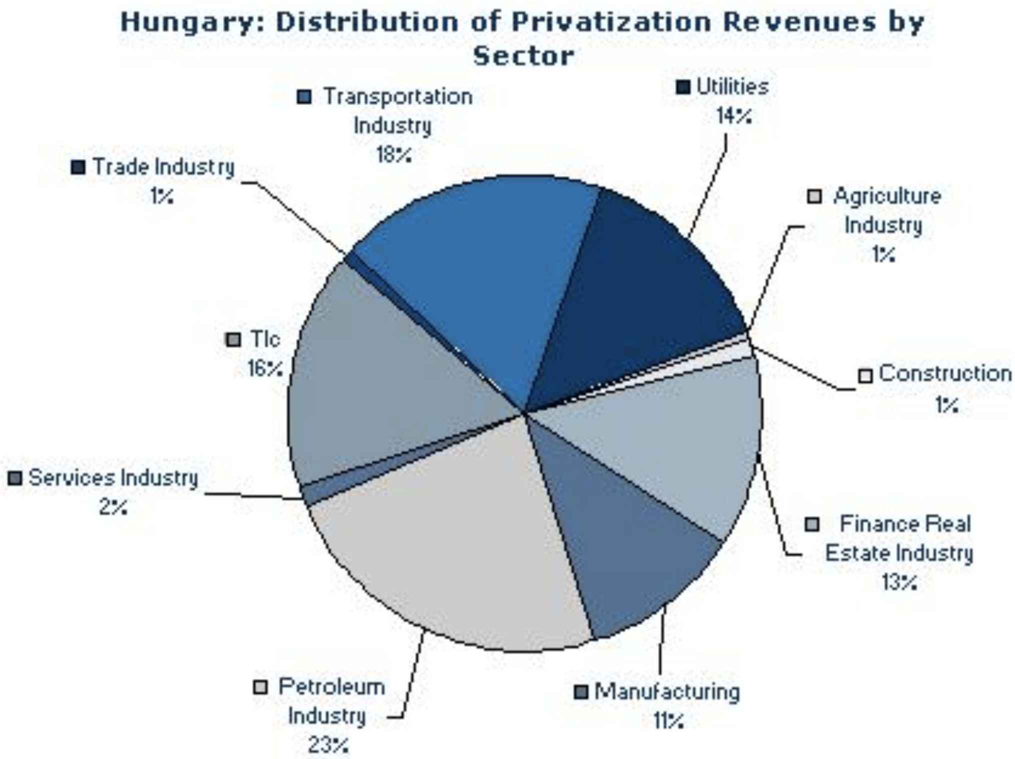
[662] Since 2002, the most noticeable privatisations have included the sale of Postabank to the Austrian banking giant Erste Bank, in 2003, for a total of US$ 450 million, and in 2005, the sales of Antenna Hungária to Swisscom, for around US$ 240 million, and Budapest Airport to the British Airport Authority Plc. for more than US$ 2.1 billion (making the latter, the biggest privatisation deal in Hungary’s history).

Figure 5.1. Privatisation in Hungary, 1989-2011[663]



[663] Source: *Privatization Barometer*, 'Hungary', 2012. Available on: http://www.privatizationbarometer.net/atlas.php?id=18&mn=IN (last accessed on: 29 January 2013).

Figure 5.2. Sectoral distribution of privatisation revenues in Hungary, 1989-2011[664]



The Antall Government, 1990-1992

As we noted in the previous section, the national-conservative government led by József Antall was determined to honour the debt obligations of the old regime, no matter the cost. This decision had critical implications for the government's privatisation strategy.[665] In the context of a deepening 'transformational recession' and the collapse of the CMEA, hard-currency offers were hard to come by. In December 1990 the Antall government announced that it intended to channel 85 percent of privatisation revenues towards the repayment of the foreign debt.[666] In 1991 alone, some US$ 200 million in privatisation revenues was used for this purpose.[667] Thus, the main criterion for the government's privatisation strategy became the highest cash offer. However, as Hanley et al. note, 'This

[664] Source: *Privatization Barometer*, op. cit.

[665] Drahokoupil, *Globalization and the State in Central and Eastern Europe*, p. 103; Hanley et al., 'The State, International Agencies...', p. 151.

[666] MTI Econews, 'Government Discusses Property Policy Guidelines for 1991', 3 December 1990.

[667] Rachel van Elkan, 'Privatization', in *Hungary: Economic Policies for Sustainable Growth*, edited by Carlo Cottarelli, Washington, DC: International Monetary Fund, 1998, pp. 63-67.

policy had a number of implications, not all of which met with popular approval.'[668] On the one hand, it ruled out the restitution of property to previous owners or their descendants, a central aim of the FKGP, the second-largest party in the national-conservative coalition. On the other hand, it effectively disqualified Hungarian firms and individuals from the privatisation process, as they had very little cash at their disposal compared to their foreign counterparts. Therefore the implicit result was that a significant number of state-owned enterprises were to be sold to foreign corporations.[669]

Despite opposition from within the ranks of the coalition government against the idea of selling off state enterprises to the highest bidder, the Antall government made no secret of the fact that its privatisation strategy involved a concerted effort to attract foreign capital. On the contrary, in 1991 the government openly declared that it intended to sell 25-30 percent of state-owned enterprises to foreign investors within five years.[670] Amongst the first 20 enterprises to be privatised were some of Hungary's 'most attractive companies', including Hungarohotels, the country's largest hotel chain, Ibusz, the national travel agency, and Chinoin, the renowned pharmaceutical company.[671] The government also employed other measures in order to attract foreign investors to participate in the privatisation process, including the provision of generous tax reductions to foreign investors.[672]

The foreign-oriented privatisation strategy enjoyed broad support amongst Hungarian economists and policymakers, as well as a significant section of the domestic managerial elite.[673] Not surprisingly, it was also welcomed by international financial institutions, Western governments, and multinational corporations. The IMF demonstrated its approval

---

[668] Hanley et al., 'The State, International Agencies...', p. 146

[669] Drahokoupil, *Globalization and the State in Central and Eastern Europe*, pp. 103-104; Hanley et al., op. cit., p. 146.

[670] MTI Econews, 'Proposal on Privatization Strategies in Hungary', 3 June 1991.

[671] Nicholas Denton and Christopher Bobinski, 'Hungary Releases its Privatization Shortlist', *Financial Times*, 15 September 1990, p. 3.

[672] Hanley et al., op. cit., pp. 146-147; World Bank, *Hungary: Structural reforms for sustainable growth*.

[673] The strong level of consensus amongst Hungarian policymakers in the early 1990s is summed up well by Joseph Stiglitz, when he reflecting on the 'irony' of the privatization (non-)debate: 'There is a joke about the debate on the speed of privatization in Hungary, with those who advocate rapid privatization arguing that privatization must be achieved in five years, while those who advocate slow privatization urging that matters be taken calmly – privatization should take place over five years'. Here cited in *id. Whither Socialism?*, Cambridge, MA: MIT Press, 1994, p. 181. See also László Csaba, 'Transformation in Hungary and (in) Hungarian Economics, 1978-1996'. Working Paper No. 97/6, Frankfurt: Frankfurter Institut für Transformationstudien, 1997; Drahokoupil, op. cit., p. 103; Greskovits, 'Hungary's post-communist development', p. 131.

by providing Hungary with a US$ 1.6 billion stand-by-agreement, to be released in tranches subject to the Antall government's ability to fulfil IMF-imposed criteria.[674] In 1992, the World Bank provided the Hungarian government with a loan of US$ 200 million, in order to support 'enterprise restructuring'.[675] USAID also threw its financial and political power behind the privatisation process in the belief that it would demonstrate the advantages of US-led capitalism. In 1989, it established the Hungarian-American Enterprise Fund (HAEF) and endowed it with a budget of US$ 60 million (later raised to US$ 72.5 million), in order to promote free enterprise and private sector development in Hungary, while strengthening economic, political, and cultural ties between the US and Hungary.[676] In the following years, similar funds were set up throughout CEE and the former Soviet Union, with a total budget of US$ 1.3 billion.[677] To elicit support for privatisation amongst US and Hungarian elites, offices were set up in Washington and Budapest, while prominent businessmen, economists, and politicians, from both sides of the Atlantic, were drafted onto the HAEF's Board of Directors. Amongst its members we find John C. Whitehead, an American banker and US Deputy Secretary of State during the Reagan administration (1985-1989), Zsigmond Járai, Minister of Finance in Orbán government (1998-2000) and later Governor of the MNB (2001-2006), and György Surányi, who, as we noted above, was one of the key 'organic intellectuals' of neoliberalism in Hungary. By the end of 1993, the HAEF had invested US$ 43.3 million in 31 Hungarian companies, with most of the money going to the consumer goods and services sector, which, at the time, was 'one of the fastest growing [sectors] in the Hungarian economy.'[678] Companies like the Central European Franchising Group Rt., the exclusive Hungarian franchisor for famous US fast food brands like Pizza Hut, Kentucky Fried Chicken, and Dunkin' Donuts, and FOTEX, Hungary's leading private retail company at the time, were amongst the highest beneficiaries.[679] In this way, the HAEF

---

[674] Hanley et al., 'The State, International Agencies...', p. 152.

[675] Nagy, *From Command to Market Economy in Hungary*, Table 3.1, p. 59.

[676] HAESF, 'History of the Hungarian American Enterprise Scholarship Fund (HAESF)', 2013. Available on: http://www.haesf.org/about_haesf/history.html (last accessed on: 27 November 2013); USAID, 'The Enterprise Funds in Europe and Eurasia: Successes and Lessons Learned', 12 September 2013, p. 161. Available on: http://www.usaid.gov/sites/default/files/documents/1863/EE_Enterprise_Funds LessonsLearned.pdf (last accessed on: 16 January 2014).

[677] Hardy, *Poland's New Capitalism*, p. 62; Janine Wedel, 'Rigging the US-Russian Relationship: Harvard, Chubais, and the Transidentity Game', *Demokratizatsiya: The Journal of Post-Soviet Democratization,* 1999, Vol. 7, No. 4, pp. 469-500.

[678] HAEF, Hungarian-American Enterprise Fund – 4th Annual Report', Budapest and Washington, DC: HAEF, 1993, pp. 12, 44.

[679] The companies received US$ 3 million and US$ 2,542,823 million in equity respectively from the HAEF. See Ibid., pp. 13-14.

ensured that Hungarian consumers and intermediaries had access to buy US goods and services. From the point of view of the US, the HAEF had two advantages: it accelerated the economic transformation of Hungary and returned a healthy profit of US$ 13 million by the time the programme was downscaled in 1999.[680]

As a result, by 1992, important sectors of the Hungarian economy, including the brewing**,** food processing, and tobacco manufacturing industry, were already in the hands of Western multinational corporations. In 1991 alone, nine out of the ten largest privatisations went to Western-based multinational corporations.[681] Yet, not all techniques used to transfer capital to the private sector were transparent and there were plenty examples of predatory business practices by multinational firms and their advisors in Hungary**.** One such example was the privatisation of Tungsram, the renowned Hungarian manufacturer of light bulbs and vacuum machines.[682] In late 1989, General Electric acquired a majority stake in the company for US$ 150 million. At the time, the move was considered 'a coup' by the *Financial Times*, and for good reasons: it provided General Electric with an access to the Western European market (which it had lacked until then) and control of one of Hungary' most valuable large manufacturing companies, together with a relatively cheap labour force – wages in Hungary were one-tenth of those in the US at the time – and an advanced research and development department.[683] However, what was hailed a 'success story' of privatisation by General Electric's top management became a painful adjustment for Tungsram's workers. After General Electric bought the company the production process was 'rationalised' and reorganised, while workers were made redundant: Tungsram's labour force shrank from 18,000 in 1990 to 9,300 in 1993. Similarly, an Austrian steel producer bought a major Hungarian steel plant only to close it down and capture its ex-Soviet market for the Austrian parent company.[684] Over the years, similar examples of (hostile) takeovers by Western-based multinational firms, followed by 'downsizing' and 'rationalisation', have abounded throughout the CEE and the former Soviet Union.

---

[680] USAID, 'The Enterprise Funds…', p. 29.
[681] Natalie Avery, 'Stealing from the State', *Multinational Monitor*, 1993, Vol. 15, No. 9; Hanley et al., 'The State, International Agencies...', p. 152.
[682] Nicholas Denton, 'A Flawed Jewel Impatient to Enhance its Lustre', *Financial Times*, 26 September 1990, p. 17; Gowan, 'Neo-Liberal Theory and Practice for Eastern Europe'; Kálmán Kalotay and Gábor Hunya, 'Privatization and FDI in Central and Eastern Europe', *Transnational Corporations*, 2000, Vol. 9, No. 1, p. 51.
[683] Denton, op. cit..
[684] UNCTAD, *World Investment Report 1994*, New York, NY: UNCTAD, 1994, p. 106.

By 1992, the Antall government's externally-oriented privatisation strategy was provoking increasing discontent within the ruling government coalition, as well as among ordinary Hungarians. Although privatisation contributed to the inflow of US$ 6 million in FDI between 1990-1993[685], making Hungary the largest recipient of FDI in per capita terms in the region, this was not accompanied by economic growth and an improvement of living standards.[686] On the contrary, the 'transformational recession' was deepening and ordinary Hungarians were witnessing a decline in living standards. As noted above, representatives of the FKGP objected to the fact that the government's policy of channelling privatisation revenues to the repayment of Hungary's foreign debt ruled out restitution of private property to original owners.[687] There was also growing dissatisfaction within the ruling MDF, most notoriously expressed by Csurka, who lashed out against the 'sell-out' of state property to 'foreigners'.[688] Although Csurka was criticised for his far-right position by politicians from across the political spectrum, as well as the cultural and intellectual elite, he seemed to express a sentiment shared by many Hungarians at the time. According to one opinion poll, carried out in 1993, just after a large number of state owned enterprises had been sold to large transnational corporations, only 24 percent of Hungarians supported foreign-ownership of state-owned enterprises 'under the condition that it would improve the state of the economy.' Elsewhere in the region, opinion polls indicated higher support for foreign ownership, ranging from 64 percent in Lithuania, through 50 percent in the Czech Republic, to 48 percent in Poland.[689]

Attempting to Build 'National Capitalism', 1993-1994

Faced with dwindling popularity in the opinion polls and growing public opposition to foreign ownership of the economy, the national-conservative coalition changed course in 1993-1994.[690] The government imposed restrictions on foreign ownership in key economic

---

[685] World Bank, *Hungary: Structural reforms for sustainable growth*, p. 151.
[686] Drahokoupil, *Globalization and the State in Central and Eastern Europe*, p. 104.
[687] Ibid., p. 103-104.
[688] Andor, *Hungary on the Road to the European Union*, pp. 49-52, 76-77; Drahokoupil, op. cit.; Hanley et al., 'The State, International Agencies...', p. 153.
[689] Rohrschneider and Whitefield 2004, here cited in Drahokoupil, op. cit., p. 97.
[690] Avery, 'Stealing from the State'; Anna Canning and Paul Hare, 'The Privatization Process – Economic and Political Aspects of the Hungarian Approach', in *Privatization in Central and Eastern Europe*, edited by Saul Estrin, London: Longman, 1994, pp. 176-217; Drahokoupil, op. cit.; Hanley et al. op. cit., pp. 153-157.

sectors, such as banking, energy, land, and telecommunications.[691] At the same time, it implemented several policies promoting the domestic accumulation of capital. These measures included the effective re-centralisation of large enterprises in sectors such as chemicals, engineering, energy, metallurgy, pharmaceuticals, and telecommunications, with the intention of maintaining long-term state control, promoting domestic ownership of productive capital through subsidized loans (through the introduction of a so called 'E-credit programme'), and encouraging the sale of state owned enterprises to Hungarian citizens through a specific voucher programme.[692]

The new strategy led to a significant decrease in foreign investment, while most of the privatisation transactions benefited domestic actors.[693] As a result, an embryonic domestic bourgeoisie was developing, although many of these were former members of the 'late-Kádárist technocracy', who had merely reproduced their class power following the regime change.[694] However, neoliberal economists in Hungary and members of the opposition in parliament criticised the government's privatisation strategy for being 'nationalist' and argued that it discouraged foreign investors and jeopardised Hungary's prospective EU membership. Similar concerns were voiced by the IMF, EBRD, and the EU.[695] When these measures failed to convince the government to change track, all the above agencies cut off their financial assistance to Hungary. In the spring of 1994, the IMF cancelled the payments of a US$ 340 million stand-by-agreement, and later in the year the EBRD followed suit.[696] As a result, Hungary's credit rating declined, making it harder and more expensive for the country to obtain capital on international financial markets. Given its dependence on foreign capital to manage its current account deficit, Hungary could not afford to resist the pressures of international financial organisations. In the 1994 election

---

[691] Andor, *Hungary on the Road to the European Union*, p. 76; Ina Dimireva, 'Hungary Investment Climate 2009', 2009. Available on: http://www.eubusiness.com/europe/hungary/invest (last accessed on 8 June 2010); Drahokoupil, *Globalization and the State in Central and Eastern Europe*, p. 104.
[692] Drahokoupil, op. cit., p. 104; Bertalan Diczházi, 'The role of foreign capital in privatization', in *Privatization in Hungary*, edited by Bertalan Diczházi, György Csáki, and Ákos Macher, Budapest: GJW Consulting, 2000, pp. 83-84; Hanley et al., 'The State, International Agencies...', pp. 153-157; Voszka, 'Centralization, Renationalization and Redistribution'.
[693] Diczházi, op. cit., pp. 83-84; Hanley et al., op. cit., p. 156.
[694] Hanley et al., op. cit.; Haynes, 'Class and crisis in Eastern Europe'; Szalai, *Gazdasági elit és társ-adalom…*
[695] Nicholas Denton, 'Delay for Hungary in IMF Pay-outs', *Financial Times*, 11 December 1993; MTI Econews, 'EBRD-Hungary on its Economic Policies', 9 April 1995; János Kornai, 'Adjustment without Recession: A Case Study of Hungarian Stabilization', in *Lessons from the Economic Transition: Central and Eastern Europe in the 1990s*, edited by Salvatore Zecchini, Dordrecht: Kluwer Academic Publishers, 1997, pp. 123-151.
[696] Hanley et al., op. cit., p. 156; Nagy, *From Command to Market Economy in Hungary*, p. 46.

campaign, the MSZP promised to change the privatisation policies of the nationalist-conservative government and bring an end to Hungary's isolation within the 'international community'. Ironically, its subsequent victory would mark an end to Hungary's brief experiment with building a 'national capitalism' and a return to neoliberal orthodoxy.[697]

Opening the Doors to Multinational Capital: Privatisation from 1995 to Present

Following a period of inactivity, the Horn government re-established the privatisation strategy favouring cash sales to foreign corporations. However, this change in privatisation strategy cannot only be attributed to a change in government. Rather, as we described in the previous section, they were the outcome of growing external and internal pressures for neoliberal reform, in the wake of Hungary's deepening financial crisis in 1994. In 1995, an agreement was reached with the IMF, which obliged the socialist-liberal government to speed up privatisation and to accept strict limits on the budget and current account deficits in exchange for a new US$ 264.2 million stand-by-agreement with the agency.[698] The agreement also led the EBRD to release funds and invest in Hungary.[699] Finally, the Horn government signed an agreement with the EU in 1995, in which it committed itself to introduce a set of sweeping market reforms, in particular with regard to the privatisation of banks, telecommunications, and utility companies, which had been objected by the previous government.[700] Following the conclusion of negotiations with the EU, the Horn government passed a *Privatisation Law*, which eliminated any restrictions on foreign ownership of banks and other financial institutions, such as insurance companies and mutual funds.[701] These changes heralded the beginning of what Gowan later described as a 'Mexican-style privatisation bonanza', which turned out to be 'unique to the region'.[702]

---

697 Drahokoupil, *Globalization and the State in Central and Eastern Europe*, p. 104; Hanley et al., 'The State, International Agencies...', p. 157; Diana Morlang, 'Hungary: Socialists Building Capitalism', in *The Left Transformed in Post-Communist Societies: The Cases of East-Central Europe, Russia, and Ukraine*, edited by Jane L. Curry and Joan B. Urban, Lanham, Maryland: Rowman & Littlefield, 2003, p. 74.
698 Hanley et al., op. cit., p. 158; Nagy, *From Command to Market Economy in Hungary*, p. 46.
699 Virgina Marsh, 'Hungarian Coalition Left Exposed', *Financial Times*, 21 September 1995, p. 3; Hanley et al., op. cit., p. 158.
700 Hanley et al., op. cit., p. 158; OECD, *OECD Economic Surveys 1998-1999: Hungary*, Paris: OECD Publishing, 1999.
701 Rachel van Elkan, 'Financial Markets in Hungary', in *Hungary: Economic Policies for Sustainable Growth*, edited by Carlo Cottarelli, Washington, DC: International Monetary Fund, 1998, pp. 81-91.
702 Gowan, *The Global Gamble*, p. 280.

The Horn government's embrace of externally-led privatisation led to a dramatic increase in cash sales, in particular to foreign investors: in just one year revenues from cash sales rose by more than 10 times in real terms, from approximately US$ 350 million in 1994 to US$ 3.6 billion in 1995, with sales to foreign investors accounting for more than 90 percent of the total.[703] International and regional bureaucratic institutions played a key role in promoting the privatisation process. For example, in 1995, the EBRD acquired minority ownership stakes in five of Hungary's six main commercial banks. According to Hanley et al., this action served a dual purpose: 'first, to inject capital for use in restructuring the banks' operations, and, second, to send a signal to potential investors that the reform of the banking sector was proceeding as planned'.[704] The strategy worked to perfection: by 1997, all except one of Hungary's commercial banks had been privatised, with large European financial institutions gaining control of majority ownership rights.[705] As a result, Hungary became a regional 'leader' in terms of privatisation. In 1995 alone, Hanley et al. write, 'foreign multinationals invested US$ 2 billion in Hungarian energy companies, acquiring majority ownership positions rights over *all* of Hungary's electricity producers and distributors and *all* of Hungary's gas distributors as well as minority ownership rights in MOL, Hungary's state-owned gas producer.'[706] Later that year, in another widely publicised privatisation deal, a consortium of two transnational corporations, Deutsche Telekom and Ameritech International, acquired a majority interest in MATÁV, the former state-owned telecommunications company, which alone accounted for more than 3 percent of Hungary's GDP at the time.[707] (At the time, MATÁV's privatisation was the largest privatisation in the CEE region and the largest foreign investment in Hungary.) However, most of the revenues that arrived did not 'trickle down' into the Hungarian economy, but was used towards repaying the country's foreign debt.[708] Moreover, any protests against the wholesale privatisation of entire industries were either ignored or actively thwarted by the Horn government, for example by the introduction of specific articles, which prohibited the right to organise unions in the recently sold enterprises.[709]

[703] Hanley et al., 'The State, International Agencies...', p. 157.
[704] Ibid., pp. 158-159.
[705] EBRD, *Transition Report 1998: Financial Sector in Transition*, London: EBRD, 1998, pp. 22-38; van Elkan, 'Financial Markets in Hungary'.
[706] Hanley et al., op. cit., p. 159.
[707] *Financial Times*, 'Setting a Fast Pace for Hungary and Europe: Profile, MATAV', 8 October 1999, p. 31.
[708] Drahokoupil, *Globalization and the State in Central and Eastern Europe*.
[709] Imre Pozsgay and Tibor Polgár, *A rendszerváltás (k)ára: nyílt párbeszéd a sorsfordító évtizedről,* Budapest: Kossuth Kiadó, 2003, p. 120.

In summary then, contrary to the claims of neoliberal economists, the privatisation process in Hungary did not lead to increasing competition in the Hungarian economy, but rather the *concentration and centralisation* of key sectors of the Hungarian economy – albeit now under the domination of large, Western-based multinational corporations, instead of domestic, 'socialist' enterprises, as during the pre-1989 period –, as well as the enrichment of a small group of Hungarians. According to one estimate cited by Hanley et al., 'by the late 1990s, foreign capital controlled two-thirds of the economic assets in the manufacturing sector, 90 percent in telecommunications, 60 percent in energy production and distribution, and 70 percent in finance.'[710] In fact, as a recent report on the investment climate in Hungary admitted: 'Ownership in Hungary is considerably *more concentrated* than in the U.S. It is common for one or two stockholders to have a controlling stake in even large corporations. Crossholdings are common and the independence of directors sometimes difficult to establish.'[711] Having said this, it is important to point out that the privatisation of the Hungarian economy was part of a wider process of *more direct, albeit uneven inter-capitalist competition on the world scale*, as European capital (and their respective governments) tried to find new sources of capital accumulation, in order to remain competitive with the US, Japan, and a rapidly emerging China.[712]

While neoliberal economists have stressed the 'success stories' of privatisation in Hungary and elsewhere in the CEE, it is important to remember that there were also many examples of corruption and shady business practices, as both consultants and local government officials had abundant openings for deal-making based on 'insider information'. There was huge public anger directed at the corruption of 'insiders', such as high-ranking officials associated with the State Privatisation and Holding Company (*Állami Privatizációs és Vagyonkezelő Rt.,* ÁPV). The most (in)famous case dates to 1996, when Márta Tocsik, a lawyer entrusted by the ÁPV to mediate with local municipalities about the privatisation of their lands and properties, was discovered to receive a more than healthy 'success fee' of HUF 804 million as part of the profit arising from the completed transactions. The revelations quickly developed into a full blown political scandal when it was discovered that individuals associated with the socialist-liberal government also profited from the transactions. The 'Tocsik affair' led to widespread public anger against the

[710] MTI Econews 1997, here cited in Hanley et al., 'The State, International Agencies...', p. 159.
[711] Dimireva, 'Hungary Investment Climate 2009'.
[712] Harman, *Zombie Capitalism*, pp. 238-241.

mismanagement of state-owned property and suspiciously funded political parties, and resulted in the sacking of the entire ÁPV board, as well as the resignation of the Minister for Privatisation, Tamás Suchman, a close ally of Prime Minister Horn.[713] A criminal procedure was raised against in 1996 against Tocsik and a number of high-ranking officials at the ÁPV, as well as an MSZP politician and a businessman linked to the SZDSZ. Following lengthy deliberations, the Supreme Court, in April 2003, fined Tocsik HUF 400,000 for 'counterfeiting private documents', but acquitted her and the others standing trial due to a 'lack of evidence'. However, in May 2008, Tocsik lost a civil procedure case and was demanded by the Supreme Court to pay back HUF 801 million.[714]

The Pivotal Role of Foreign Investment

The second distinctive feature of the neoliberal regime of accumulation that developed in Hungary after 1989 is the outstanding weight of foreign capital in the economy. According to neoliberal economists, in Hungary and abroad, foreign investment would be 'the engine of growth' in 'transition economies'.[715] This claim was predicated on the argument that by opening up to international trade and foreign capital, the ex-state capitalist economies of the region would gain an injection of financial capital, as well as an automatic transfer of western technology, managerial know-how, and organisation methods that was 'necessary to overcome the dismal economic legacy of the past 40 years.'[716] Moreover, neoliberal accounts emphasised the positive role of foreign investment in bringing about a competitive stimulus that, similar to a form of economic Darwinism, would force all firms to restructure both their management and production activities.[717] Over the years, this position has been reiterated by neoliberal economists, international and regional bureaucratic institutions, such as the IMF, World Bank, OECD, EU, and EBRD, as well as the representatives of hegemonic Western states. For example, in a speech at the

---

[713] Inzelt, 'White collar crime...', pp. 369-370; Kéri, *A rendszerváltás krónikája, 1988-2009*, p. 65; Mocsáry, 'Visszapillantás a privatizációra', pp. 4-39.
[714] For examples of corruption in other CEE countries, see Janine R. Wedel, *Collision and Collusion: The Strange Case of Western Aid to Eastern Europe*, Basingstoke: Palgrave Macmillan, 2001.
[715] Csaba, *The New Political Economy of Emerging Europe*; Gábor Hunya, 'Foreign Direct Investment and Privatisation in Central and Eastern Europe', *Communist Economies and Economic Transformation,* 1992, Vol. 4, No. 4, pp. 501-511; Kornai, *The Road to a Free Economy*; Lipton and Sachs, 'Creating a Market Economy in Eastern Europe'; Tardos, *Felzárkózás vagy lemaradás?*, pp. 293-298.
[716] Sachs, 'What is to be done?'.
[717] Åslund, *Building Capitalism...*; Hunya, op. cit. and *id. Integration through Foreign Direct Investment: Making Central European Industries Competitive*, Northampton, MA: Edward Elgar, 1999; Lipton and Sachs, op. cit..

Collegium Budapest in 1995, the US ambassador to Hungary neatly summed up the consensus view on foreign investment after the transition:

> I have often been asked why there isn't a new Marshall Plan to help Central and Eastern Europe. Well, there is – it is here – and it is called private foreign investment … Foreign investment creates jobs, enhances productivity, generates economic growth, and raises the standard of living. It brings new technology, new management techniques, new markets, new products, and better ways of doing business.[718]

In the early 1990s, claims such as this became accepted as 'common sense' amongst Hungarian policymakers. The primary reason why policymakers decided to follow this strategy was, as we noted above, the country's high indebtedness and the political decision to pursue unconditional debt service.[719] Secondly, it was also hoped that opening up the Hungarian economy to international trade and foreign capital would allow for a fast incorporation with the global economy (and the economic success and higher living standards that came with this process), while at the same time accelerate the country's geopolitical reintegration with the West.[720] As G.M. Tamás recalls, some politicians in Budapest even held more fanciful dreams, and believed that the arrival of foreign capital would help transform the country into the 'financial hub' of CEE, beating neighbouring Prague, Warsaw, and Vienna in this race.[721] Third, and finally, as Drahokoupil argues, openness to foreign investors was also well received by 'a significant sector of the Hungarian managerial elite', who believed that 'FDI was needed for Hungarian industry to develop … [and] that their career prospects would be better served under a foreign owner.'[722]

In order to attract foreign capital to invest in the country, the Hungarian state developed a wide-ranging investment attraction and support scheme. As we noted in Chapter 3, initial steps in this direction had already been taken *before* the formal transition to a free market economy and democracy in 1989. Legislation permitting the creation of joint ventures had

---

718 Blinken 1995, here cited in Gowan, *The Global Gamble*, p. 193.
719 Drahokoupil, *Globalization and the State in Central and Eastern Europe*, pp. 102-103; Christopher Dörrenbächer, 'Challenges for Foreign-owned Subsidiaries in FDI-led Modernization Strategies: The Case of Hungary', *Competition & Change*, 2007, Vol. 11, No. 2, p. 182; Fink, 'FDI-led Growth and Rising Polarisations in Hungary', pp. 54-58.
720 Andor, *Hungary on the Road to the European Union*; Drahokoupil, op. cit., p. 103.
721 Gáspár M. Tamás, 'Interview – Hungary: "Where We Went Wrong"', *International Socialism*, 2009, No. 123, p. 36. See also Andor, op. cit., pp. 82-83.
722 Drahokoupil, op. cit., p. 103. See also Greskovits, 'Hungary's post-communist development', p. 131.

been introduced as early as 1972 and a scheme for industrial free trade zones (IFTZs) was set up by the Kádár regime in 1982, while the 1988 *Law on Foreign Investment* provided foreign investors with equal treatment and the right to repatriate profits. Following the regime change, these measures were refined and deepened by successive governments in Budapest, to encompass the provision of generous fiscal incentives (for example, foreign investors were offered tax holidays, reductions, or total exemption from income tax over a period of ten years if they invested a pre-determined amount of capital), state subsidies for investment in research and development (R&D), and various and infrastructural measures, such as the construction and maintenance of export processing zones (EPZs), IFTZs and industrial parks.[723] In order to lobby existing investors and communicate with prospective investors about benefits of investing in Hungary, the Hungarian Investment and Trade Development Agency (ITDH)[724] was established in 1993. When these measures where not sufficient to lure foreign investors to the country, governments in Budapest also made individual deals with foreign investors, guaranteeing them monopoly positions and above-average profit rates.[725] This was, for example, the case with the privatisation of the public utilities sector, where the Horn government guaranteed prospective buyers the provision of an annual profit rate of 8 percent.[726] From 1996 and onwards, the incentives scheme underwent significant change (in part due to the criticism raised against the 'Bokros Package'), and measures were taken to increase the benefits of foreign investment for the local economy. The new incentives scheme became less generous and more targeted towards attracting investment towards export-oriented manufacturing. At same time, governments in Budapest also attempted to create stronger linkages between transnational corporations and Hungarian suppliers.[727] Nevertheless, throughout the 1990s and early

---

[723] Drahokoupil, *Globalization and the State in Central and Eastern Europe*, p. 49; Dörrenbächer, 'Challenges...' , pp. 182-183; Fink, 'FDI-led Growth and Rising Polarisations in Hungary', pp. 55-59.
[724] Following an organisational makeover in 2011, the agency was renamed to HITA (*Nemzeti Külgazdasági Hivatal*) and came under the direct control of the Ministry of National Economy.
[725] Drahokoupil, op. cit.. See also Magdolna Sass, 'The effectiveness of host country policy measures in attracting FDI: the case of Hungary', in *The Development Dimension of FDI: Policy and Rulemaking Perspectives*, edited by Americo B. Zampetti and Torbjörn Fredriksson, Geneva: UNCTAD, 2003, pp. 49-58.
[726] Pozsgay and Polgár, *A rendszerváltás (k)ára*, p. 48.
[727] One such example was the establishment of the Pannon Automotive Cluster (PANAC) in 2000, which was launched as a joint initiative between the largest multinational car producers (and their domestic suppliers) operating in Hungary, financial institutions, and the Ministry of Economy, in order to 'reinforce the international competitiveness of the Pannonian region, to improve the region's ability to renew, to contribute to the region's development (automotive start-up and spin-off firms, creation of jobs)'. See PANAC, 'About us: Pannon Automotive Cluster', 2013. Available on: http://www.autocluster.hu/content_5-en.html (last accessed on: 22 January 2013) .

2000s, Hungary was considered a regional 'leader' in terms of the generosity of its incentives scheme offered to foreign investors.[728]

Multinational capital was attracted to Hungary and other CEE economies for a variety of reasons. In the early 1990s, foreign investors were largely attracted by the prospect of acquiring the 'crown jewels' of these economies. However, once the privatisation bonanza receded other incentives took over. On the one hand, the combination of 'relatively low labour costs'[729], together with 'an attractive business climate' (including protection of private property and the right to expatriate profits, low or flat tax rates, and the provision of state subsidies for investment in research and development, etc.), geographical proximity to the core capitalist states of the EU (and, after 2004, EU membership), and higher than average profit rates in a number of sectors of the economy, made the CEE economies a lucrative region for capital flows from advanced economies.[730] As *The Economist* mused in 2005,

> investors … love the new [EU] members for their low wages, high productivity and simple taxes. Build a factory here, and you get EU market access at far less than average EU costs. According to the Boston Consulting Group, if you want to sell refrigerators or cars in western Europe, it can be cheaper to make them in Poland than in China.[731]

On the other hand, the flow of capital to CEE enabled capitalists in the core economies to spur a 'race to the bottom' by pressuring workers' in their countries to accept lower wages and inferior working conditions. According to a recent study by the Research on Money and Finance (RMF) network, the great beneficiary of these policies was German capital, who managed to hold down wages and working conditions (in the 1990s German wages rose cumulatively by 10 percent less than the European average) and thereby

---

[728] Fergus Cass, 'Attracting FDI to transition countries: the use of incentives and promotion agencies', *Transnational Corporations*, 2007, Vol. 16, No. 2, pp. 77-122; Drahokoupil, *Globalization and the State in Central and Eastern Europe*, p. 49; EIU, *Country profile 2004: Hungary*, London: The Economist Intelligence Unit, 2004; OECD, *OECD Reviews of Foreign Direct Investment: Hungary*, Paris: OECD Publishing, 2000.

[729] In the early 2000s, gross monthly wages in the accession countries ranged from less than 15 percent of average German wages (Latvia and Lithuania) to about 30 percent (Hungary and the Czech Republic). Zimmerman 2007, here cited in Wade Jacoby, 'Managing globalization by managing Central and Eastern Europe: the EU's backyard as threat and opportunity', *Journal of European Public Policy*, 2010, Vol. 17, No. 3, p. 422.

[730] Andor, *Hungary on the Road to the European Union*, p. 83.

[731] *The Economist*, 'Transformed: EU membership has worked magic in central Europe', *Special report: the EU's eastern borders*, 23 June 2005, pp. 6-8.

increase exports and profits.[732] As the report goes on to note, the big balance of trade surplus that Germany accumulated was subsequently 'recycled through foreign direct investment and German bank lending to peripheral countries and beyond.'[733] As a matter of fact, by 2001, Germany was the largest investor in Hungary, with German capital accounting for 26 percent of all FDI into Hungary, and German banks were one of the main owners of the Hungarian banking system.[734]

Despite these measures and contrary to the optimistic forecasts of neoliberal economists, inflows of foreign capital to Hungary and other 'transition economies' were, by all accounts, relatively meagre in the first half of the 1990s. However, from the mid-1990s FDI inflows began to soar and from 1996 onwards total FDI stock as percentage of GDP in CEE surpassed the world average. As the table below indicates, Hungary became one of the most favoured destinations of foreign capital in the region. The lion share (78.8 percent) of the foreign capital flowing into region between 1990 and 2004 went to the four so-called 'Visegrád states' (V4) of the Czech Republic, Hungary, Poland, and Slovakia. Within this group, Hungary received the second largest share (following Poland) of total FDI inflows to post-Soviet CEE in the period between 1990 and 1998. Almost one-third (31 percent) of all FDI inflows into the region went to Hungary. In terms of country of origin of inward FDI flows, as well as Hungary's major trading partners, it can be seen that the country's neoliberal regime of accumulation is predominantly European in orientation. In 2003, about 80 percent of the FDI stock in Hungary came from transnational corporations with headquarters in the EU, about 80 percent of Hungary's exports and 70 percent of its imports originated from the EU.[735] Germany is the largest investor in Hungary, as well as its largest trading partner. By 2001, German capital accounted for 26 percent of overall FDI into Hungary, followed by the Netherlands (23 percent), Austria (12 percent), and the United States (8 percent).[736] The growing influence of German capital on the Hungarian economy can be seen as reflection of wider economic and geopolitical shifts in Europe and indeed globally.[737]

---

[732] RMF, *The Eurozone Crisis: Beggar Thyself and Thy Neighbour*, RMF occasional report, prepared by Costas Lapavitsas et al., March 2010; Harman, *Zombie Capitalism*, p. 240.
[733] Ibid., p. 4.
[734] Bandelj, *From Communists to Foreign Capitalists*, p. 107.
[735] MNB, *Foreign Direct Investment in Hungary, 1995-2003*, Budapest: National Bank of Hungary, 2003.
[736] Bandelj, op. cit., p. 107.
[737] On the resurgence of German capital, see RMF, op. cit..

Table 5.3. FDI inflows and stocks in post-Soviet CEE economies, 1990-2004[738]

	FDI inflows, 1990 (US$ millions, current prices)	FDI inflows, 1990-2004 (US$ millions, current prices)	Percentage share of FDI inflows to EU-10 total, 1990-1998	Share of FDI flows to EU-10 total, 1999-2004	FDI stocks, 2004 (US$ millions)	FDI stocks/capita, 2004 (US$)	FDI stocks/GDP, 2004 (in percent)
Bulgaria	4	10,530	2.0	6.3	7,569	1,298	39.98
Czech Republic[a]	-	43,044	14.2	22.7	56,415	5,613	50.24
Estonia[b]	-	5,064	2.2	2.4	9,530	7,449	83.60
Hungary	*554*	*42,401*	*31.0*	*13.6*	*60,328*	*6,089*	*60.40*
Latvia[c]	-	3,816	2.3	1.5	4,493	1,953	32.97
Lithuania[d]	-	4,567	2.1	2.1	6,389	1,862	28.20
Poland	88	68,180	32.6	30.7	61,427	2,273	36.24
Romania	0	17,495	6.0	9.1	18,009	938	27.03
Slovakia[e]	-	17,606	5.8	9.3	14,501	5,209	51.87
Slovenia[f]	-	4,580	1.6	2.3	4,962	3,799	22.43
Total	**646**	**217,283**	**100**	**100**	**243,623**		

The inflow of multinational capital brought drastic changes to the Hungarian economy. On the one hand, it contributed to a rapid reorientation of Hungary's foreign trade, away from the former Soviet bloc economies towards the EU. Between 1989 and 1991 the share of Hungarian exports going to Soviet bloc markets decreased from 41 to 19 percent of GDP, while the share of exports going to the advanced capitalist economies of the OECD increased to 70 percent of GDP.[739] These levels have become entrenched since then: by 2004 more than 80 percent of Hungary's trade was with 'non-transition economies'.[740] On

[738] Sources: László Csaba, 'Between Transition and EU Accession: Hungary at the Millennium', *Europe-Asia Studies*, 2000, Vol. 52, No. 5, pp. 805-827; Martin Myant and Jan Drahokoupil, *Transition Economies: Political Economy in Russia, Eastern Europe, and Central Asia*, Hoboken, NJ: Wiley, 2011, p. 279; UNCTAD, *World Investment Report 2005*, New York, NY: UNCTAD, 2005, p. 308.
[a] Figures for the Czech Republic are for the period, 1993-2004.
[b] Figures for Estonia are for the period, 1992-2004.
[c] Figures for Latvia are for the period, 1992-2004.
[d] Figures for Lithuania are for the period, 1992-2004.
[e] Figures for Slovakia are for the period, 1993-2004.
[f] Figures for Slovenia are for the period, 1992-2004.
[739] Jeffries, *Socialist economies and the transition to the market*, p. 428. For a more detailed analyses, see Paul Brenton and Daniel Gros, 'Trade Reorientation and Recovery in Transition Economies', *Oxford Review of Economic Policy*, 1997, Vol. 13, No. 2, pp. 65-76; János Gács, 'Output decline and the demise of the CMEA and the USSR: the case of Hungary', *Empirica*, 1994, Vol. 21, No. 1, pp. 83-104.
[740] EBRD, *Transition Report 2004: Infrastructure*, London: EBRD.

the other hand, it contributed to the introduction of new manufacturing activities and techniques that had hitherto been nonexistent or underdeveloped in Hungary, while the proportion of low-technology industries declined significantly.[741] One such example is the car manufacturing industry. During state capitalism, the importance of the car industry had been negligible in Hungary (although the country was an important supplier of trucks and buses to the CMEA-market with domestic brands, such as Ikarus and Rába). However, following the regime change Hungary established itself as a 'regional leader' of the car industry, 'as global car makers sought to take advantage of cheaper labour and sell to consumers eager for a modern motoring experience.'[742] In the 1990s, three global car manufacturers – Audi, Opel, and Suzuki – established car assembly plants in Hungary.[743] The biggest investor is Audi, which has built the largest engine manufacturing plant of Europe (third largest in the world) in Győr, Northwestern Hungary, investing more than € 3.3 billion until 2007.[744] The presence of major car manufacturers has contributed to the arrival of a number of component producers, who supply multinational corporations based in Hungary and other parts of the firms' networks throughout the world. For example, in 2006 the Korean Hankook Tire established its first European plant in Dunaújváros, located in central Hungary, which will produce 10 million tires annually and employ 1,500 Hungarian workers. As a result of these changes, the car industry became one of the pillars of the Hungarian economy. In 2007, Hungary produced 290,235 passenger cars and 3,566 commercial vehicles (an increase of more than 50 percent from the year before). By then, the industry provided jobs for around 110,000 workers, including a number of highly skilled workers.[745] The revenues from the sector amounted to € 15.4 billion, nearly 15.5

---

[741] Andrea Szalavetz, *Structural change – structural competitiveness,* Working Paper 155, Budapest: Institute of World Economics, Hungarian Academy of Sciences, 2005, p. 6; János Gács, 'Structural change and catching up: the experience of ten candidate countries', in *Economic convergence and divergence in Europe. Growth and regional development in an enlarged European Union*, edited by Gertrude Tumpel-Gugerell and Peter Mooslechner, Cheltenham: Edward Elgar, 2003, p. 143.

[742] ACEA, 'Country Profile: Hungary', European Automobile Manufacturers Association (ACEA), 2008. Available on: http://www.acea.be/index.php/country_profiles/detail/hungary (last accessed on: 21 January 2013); Eddy Kester, 'Manufacturing: Hungary's auto sector quietly goes on growing', *Financial Times*, 6 October 2011.

[743] In 2008 Mercedez-Benz became the fourth global car manufacturer to open an assembly plant in Hungary, when it set up an assembly plant in Kecskemét, 86 kilometres Southeast of Budapest, for the production of the new Mercedes-Benz Class A and B cars. The investment, which cost € 800 million, provides work for some 2,500 workers producing an expected 100,000 cars annually, was opened on 29 March 2012.

[744] HITA, 'The Automotive Industry in Hungary: Engine of Growth', Hungarian Investment and Trade Agency (HITA), 2007. Available on: http://www.yumpu.com/en/document/view/5914885/engine-of-growth (last accessed on: 31 July 2013).

[745] ACEA, op. cit.; EY, 'The Central and Eastern European Automotive Market', 2013. Available on: http://www.ey.com/GL/en/Industries/Automotive/The-Central-and-Eastern-European-automotive-market---Country-profile--Hungary (last accessed on: 31 July 2013).

percent of GDP, 19.4 percent of all industrial production, and about 20 percent of Hungary's exports.[746]

In some cases, domestic capitalists also benefited from the arrival of foreign capital. For example, VIDEOTON, one of the flagships of Hungarian electronics production under 'actually existing socialism', managed to establish itself as the 30 most important electronic manufacturing services (EMS) providers in the world,[747] supplying transitional corporations such as Bosch and Valeowith manufacturing products, engineering services and workers from its nine different locations in Hungary, as well as one location each in Bulgaria (Stara Zagora) and Ukraine (Mukachevo).[748] The firm's co-CEO Ottó Sinkó characterised VIDEOTON's strategy as follows: 'Downsize radically, stop developing new products, and focus on labour-intensive manufacturing to serve a hungry crop of multinational investors'.[749] As Bohle and Greskovits have noted, 'Such services facilitate what TNCs [transnational corporations] and their foreign suppliers consider crucial to operate efficiently in Hungary: *flexibility*. Such arrangements can produce at minor fixed costs and flexibly react to market changes.'[750] While workers bear the burden of flexibility through precarious forms of employment, this business model has been highly rewarding for the company and its top management. In 2007, VIDEOTON recorded an operating profit of around HUF 7 billion,[751] while its President and CEO Gábor Széles, was one of the richest men in Hungary.[752]

For supporters of neoliberalisation, in Hungary and abroad, figures and stories like these confirm the positive impact of foreign investment and transnational corporations on the

---

[746] Based on data from ACEA, 'Country Profile: Hungary'.
[747] MMI, 'The MMI Top 50 for 2012', *Manufacturing Market Insider* (MMI), 2012. Available on: http://www.mfgmkt.com/mmi-top-50.html (last accessed on: 31 July 2013).
[748] Videoton, 'Extract of annual business report for 2011', 2011. Available on: http://www.videoton.hu/images/excerpt_2011_eng.pdf (last accessed on: 31 July 2013).
[749] Sinkó, here cited in Slavko Radosevic and Deniz E. Yoruk, 'Videoton: the growth of enterprise through entrepreneurship and network alignment, Working Paper No. 3, London: University College London, Center for the Study of Economic and Social Change in Europe, 2001, p. 7.
[750] Dorothee Bohle and Béla Greskovits, 'Capitalism without Compromise: Strong Business and Weak Labor in Eastern Europe's New Transnational Industries', *Studies in Comparative International Development*, 2006, Vol. 41, No. 1, p. 14 (my emphasis).
[751] Videoton, op. cit..
[752] Videoton is only one part of Gábor Széles' business empire. It also includes a growing media empire, which is strongly right-wing in political terms and includes such outlets as the *Magyar Hírlap* newspaper and *Echo TV* television channel. See Figyelő, 'A Széles birodalom', 9 October 2005. Available on: http://fn.hir24.hu/gazdasag/2005/10/04/szeles_birodalom/ (last accessed on: 31 July 2013); Index.hu, 'Médiabirodalmat épít Széles Gábor', 15 September 2005. Available on: http://index.hu/gazdasag/magyar/szelm050915/ (last accessed on: 31 July 2013).

Hungarian political economy.[753] This view is also shared by some institutionalists, such as Bohle and Greskovits, who have recently argued that foreign capital has contributed to a form of *Wirtschaftswunder* in Hungary and other V4 states.[754] However, a closer look at the overall structure of the Hungarian economy reveals a number of problems with Hungary's 'FDI-led growth model'.

To begin with, while the above figures might reflect well on Hungary in terms of its ability to capture a relatively large share of foreign investment inflows to CEE, it is important to put the example of Hungary and other CEE economies in a pan-European and global perspective. The table below provides a sober antidote to those overly optimistic accounts arguing that CEE economies to 'catching up' in terms of FDI. As we can see, by 2006, the three largest economies of the EU – Germany, France, and the UK – accounted for nearly half (44 percent) of total FDI stocks in the EU, whereas the three strongest CEE economies (the Czech Republic, Hungary, and Poland) accounted for less than 5 percent between them. This pattern is also reflected in the comparatively small share of total FDI flows to the EU that these countries received. Thus, in terms of capturing a share of global FDI flows, Hungary remained very much on the *periphery* of Europe.

Table 5.4. FDI stocks and inflows in CEE accession countries in a comparative perspective[755]

	FDI stocks as percentage of EU total			**FDI inflows as percentage of EU total**
	1990	**2000**	**2006**	**2006**
Germany	15	12.5	9	8
France	12	12	14	15
United Kingdom	27	20	21	26
Czech Republic	0.2	0.9	1.4	1.1
Hungary	*0.07*	*1.0*	*1.5*	*1.1*
Poland	0.02	1.6	2.0	2.6

[753] György Csáki and Gábor Karsai (eds.), *The Evolution of the Hungarian Economy, 1848-2000, Vol. III, Hungary: From Transition to Integration*, New York, NY: Columbia University Press, 2001, pp. 226-261; Kornai, 'The Great Transformation of Central Eastern Europe'.
[754] Bohle and Greskovits, *Capitalist Diversity on Europe's Periphery*.
[755] Sources: UNCTAD, *World Investment Report 2005*, pp. 303; 308, Table B1 and B2; Hardy, *Poland's New Capitalism*, p. 83, Table 5.3.

A second problem with the Hungarian model is that it is *heavily dependent on foreign capital and export-led growth*. The signs of this are omnipresent. In the first decade after the transition, the number of transnational corporations located in Hungary grew more than fourfold, from 6,000 in 1990 to 26,645 in 2000.[756] By then, transnational firms employed more than 28 percent of the total workforce.[757] Transnational corporations controlled major export industries (especially in the food and car manufacturing industries), utilities, and financial services.[758] As the table below indicates, the influence of foreign capital was particularly strong in the banking sector.

Table 5.5. Penetration ratios of majority-owned foreign bank affiliates, 2001[759]

CEE*	**Percentage of banking industry controlled by foreign banks**	**Developed economies***	**Percentage of banking industry controlled by foreign banks**
Estonia	98.9	New Zealand	99.1
Czech Republic	90.0	United Kingdom	46.0
Hungary	*88.8*	United States	20.2
Slovakia	85.5	Norway	19.2
Lithuania	78.2	Portugal	17.7
Poland	68.7	Australia	17.0

Moreover, while foreign capital is monopolistic in many parts of the Hungarian economy, this problem is further aggravated by what Szalai has described as the 'monocultural character' of foreign capital, in the sense that the activities of transnational corporations are primarily based towards the needs of Western European markets (in particular Germany, which as we noted above, was Hungary's largest trading partner).[760] According to estimates by Károly Loránt, the profit extracted by transnational corporations from the Hungarian economy amounted to 6-7 percent of GDP.[761] This has led some

[756] Fink, 'FDI-led Growth and Rising Polarisations in Hungary', p. 53.
[757] Ibid.
[758] Csáki and Karsai, *The Evolution of the Hungarian Economy*, p. 234; Drahokoupil, *Globalization and the State in Central and Eastern Europe*, p. 55.
[759] Source: Drahokoupil, op. cit., p. 55.
* Top six in ranking.
* Top six in ranking.
[760] Szalai, 'A rendszerváltástól a rendszerválságig'.
[761] Károly Loránt, 'A Magyarország eladósódásával kapcsolatos legfontosabb tudnivalok' (unpublished manuscript), 2008.

scholars of the transformation to describe the Hungarian economy as a 'dual economy', characterised by a weak domestic sector and a strong and dynamic transnational sector.[762]

Third, and finally, in addition to the dependence on foreign capital in practically all economic sectors of Hungary, the Hungarian model has also strengthened *regional inequalities*. Polarisations between the industrialised Western and 'backward' Eastern parts of Hungary, as well as between the urban Budapest and the larger regional centres on the one hand and the rural villages and small and medium sized towns on the other, have existed historically in Hungary, dating as far back as the establishment of Christianity in Hungary in the 11th century.[763] However, these polarisations have deepened following the regime change, as a result of neoliberal restructuring and the accompanying decline of agriculture and 'socialist' industry. The Western and Central regions of Hungary have closer (and better) connections with Western Europe, a modern infrastructure, and a more educated labour force, as well as, in general, a higher level of development. Conversely, the underdeveloped regions of Eastern and Southern Hungary are still suffering from 'socialist legacies', characterised by 'a dominance of heavy industry and agriculture.'[764] This has led to a strong concentration of foreign investment. According to official statistics, the western and central regions received 85 percent of all the FDI inflows to Hungary between 1990 and 1998, although they only accounted for 32 percent of the country's territory and 49 percent of its population.[765] Since then, these trends have large remained unchanged. As a result, more than three quarters of all FDI inflows to Hungary were still located in Central and Western Hungary by 2004.[766] And even though the underdeveloped regions of Eastern and Southern Hungary have been able to increase their share of FDI since the late 1990s, empirical studies have shown that most of the foreign

---

[762] Andor, *Eltévedt éllovas*; Zoltán Pogátsa, 'Hungary: From Star Transition Student to Backsliding Member State', *Journal of Contemporary European Research*, 2009, Vol. 5, No. 4, pp. 597-613; Szalai, 'Morális krizis vagy rendszerválság?' and 'A rendszerváltástól a rendszerválságig'.

[763] Dörrenbächer, 'Challenges...' , p. 184; Fink, 'FDI-led Growth and Rising Polarisations in Hungary', p. 65.

[764] Fink, op. cit., p. 66. See also Dörrenbächer, op. cit., p. 184; Károly Fazekas, *The Impact of Foreign Direct Investment Inflows on Regional Labour Markets in Hungary*, Working Paper 2000/8, Budapest: Labour Research Department, Institute of Economics, Hungarian Academy of Social Sciences, 2000, pp. 1-35.

[765] Fazekas, op. cit.; Fink, op. cit., pp. 65-66; OECD, *OECD Reviews of Foreign Direct Investment*; Petr Pavlinek, 'Regional development implications for foreign direct investment in Central Europe', *European Urban and Regional Studies*, 2004, Vol. 11, No. 1, p. 51.

[766] Dörrenbächer, op. cit., p. 184.

capital that has arrived has been in low-paid and less-skilled work.[767] Empirical studies have observed similar trends elsewhere in CEE.[768]

Labour: A Heavy Adjustment

If capital (both 'foreign' *and* 'domestic') has been the main 'winner' of Hungary's double transformation, workers and the poor have been the 'losers' of this process. The table below shows the profound impact of neoliberal restructuring on the Hungarian labour market.

[767] Judit Hamar, 'Regional Effects of FDI-inflows in Hungary', *Acta Oeconomica*, 1999, Vol. 50, No. 1-2, pp. 169-190; János P. Kiss, 'Industrial Mass Production and Regional Differentiation in Hungary', *European Urban and Regional Studies*, 2001, Vol. 8, No. 4, pp. 321-328; Péter Serenyi, 'Rising in the East', *Business Central Europe*, March 2001.

[768] For the Czech Republic, see Petr Pavlinek, 'Foreign direct investment in the Czech Republic', *The Professional Geographer*, 1998, Vol. 50, No. 1, pp. 71-85 and 'Regional development', op. cit. For Poland, see Boleslav Domanski, 'Poland: labour and the relocation of manufacturing from the EU', in *CEE countries in EU companies' strategies of industrial restructuring and relocation*, edited by Grigor Gradev, Brussels: European Trade Union Institute, 2001, pp. 21-49.

Table 5.6. Employment in Hungary, by activity, 1990-2004[769]

	Total employment by activity (in thousands)				Percentage change in employment, 1990-2004[*]
	1990	1995	2000	2004	
Agriculture, hunting, forestry, and fishing	906.7	295.1	251.7	204.9	- 77.4
Mining and quarrying	N/A	34.0	19.2	14.2	- 58.2
Manufacturing	1,495.7[a]	850.2	931.3	893.9	- 40.3
Construction	336.4	217.3	267.8	308.7	- 8.2
Trade and repair	578.2[b]	459.9	540.9	545.7	- 5.6
Hotels and restaurants	N/A	116.6	133.3	148.8	+ 27.6
Transport, storage, and communication	427.0	319.6	311.8	296.1	- 30.1
Finance	N/A	82.2	83.7	80.1	- 2.5
Real estate, renting, and business	N/A	130.6	204.6	272.5	+ 108.6
Public administration and defence	N/A	318.1	299.0	298.8	- 6.1
Education	N/A	335.4	317.8	333.0	- 0.7
Health and social work	N/A	231.4	241.7	269.4	+ 16.4
Total men and women	**4,980.1**	**3,678.8**	**3,849.1**	**3,900.4**	**- 21.6**

As illustrated by the figures, the 1990s and the early 2000s was a period of dramatic change for Hungarian workers. Between 1990 and 1995, more than 1.3 million jobs were shed as a result of the collapse of industry and agriculture. Within the same period, the official unemployment rate increased from 0.5 percent to 12 percent of the labour force.[770] All transformation economies, with the exception of the Czech Republic, experienced a similar growth of double-digit unemployment. At the end of 1994, around 2.8 million people were unemployed in Poland (an unemployment rate of 16 percent), while in Slovakia 370,000 people were registered as unemployed (14.6 percent), and in Bulgaria the same figure was around 500,000 people (13 percent of the working population).[771] Similar

[769] Source: author's calculations based on data from KSH.
[*] Where data for 1990 is unavailable, the figure indicates changes in the period between 1995 and 2004.
[a] Figure includes people working in mining and quarrying.
[b] Figure includes people working in hotels and restaurants.
[770] Andor, *Hungary on the Road to the European Union*, Table 1, p. 175.
[771] Ibid., p. 88.

to other countries in the region undergoing neoliberalisation, Hungary had thus formally created what Marx called 'an industrial reserve army of labour',[772] the effect of which, as Harvey argues, was 'to undermine the power of labour and permit capitalists to make easy profits thereafter.'[773]

In Hungary, the three sectors that suffered the biggest decline in employment were agriculture, mining, and manufacturing. Between 1990 and 2004, the number of people earning a living from the land fell from 18.2 percent to 5.2 percent of the working population, while more than 620,000 jobs were lost in mining and manufacturing, as a result of neoliberal restructuring. While the decline in manufacturing (40.3 percent) in this period is noticeable, still almost one-in-five of the working population worked in manufacturing in 2004, which is a relatively high figure compared to most advanced capitalist economies. For example, in the US manufacturing accounted for 46 percent of total US profits in 1999, but only 14 percent of the labour force.[774] Having said this, the dominant trend in the Hungarian labour market is the expansion of jobs in the services sector. As Table 5.1 shows, the number of people working in hotels and restaurants increased by 32,200 between 1995 and 2004 (an increase of 27.6 percent). The biggest growth is the more than 108 percent increase in real estate, renting, and business, which grew from 130,600 jobs to 272,500 jobs – increasing its overall share of the labour force from 3.5 percent to 7 percent. In total, the number of people employed in the services sector accounted for 55.8 percent of the total working population in 2004. While this figure is largely in line with other CEE economies, it is significantly lower than averages in most advanced capitalist states.[775]

Eventually, the Hungarian economy returned to growth in the second half of the 1990s, and the unemployment rate eventually stabilised around 6-7 percent in the early 2000s. However, this seemingly positive figure does not reveal a number of distinct features of the Hungarian labour market. To begin with, as Fink points out, 'economic growth in Hungary has by no means been employment-intensive.'[776] As a result, underemployment remained chronically high; in 2006 Hungary's employment rate stood at 57.3 percent, well below the

[772] *Marx, Capital. Volume 1*, pp. 781-794.
[773] Harvey, *A Brief History of Neoliberalism*, p. 59.
[774] *Endnotes* and Aaron Benanav, 'Misery and Debt: On the Logic and History of Surplus Populations and Surplus Capital', *Endnotes*, No. 2, Glasgow: Benn & Bain, 2010, p. 37, fn. 28.
[775] Source: Eurostat Statistical Database; Dunn, *Global Political Economy*, p. 229, Table 11.1.
[776] Fink, 'FDI-led Growth and Rising Polarisations in Hungary', p. 51.

EU-15 average of 66.1 percent.[777] Second, it also masks important generational and regional disparities. Similar to many other countries, unemployment among young people, including graduates, has been increasing in the 1990s and 2000s. In 2006, youth unemployment stood at 19.1 percent (up from 11.9 percent in 2000), and was more than twice as much as the national average rate of unemployment (7.5 percent). However, this figure was still relatively favourable in comparison with many other European countries – in the same year, the youth unemployment rate was 22 percent in France, 25 percent in Greece, 29.8 percent in Poland. In fact, amongst the advanced capitalist economies, it was only significantly lower in Germany (13.8 percent), Japan (8 percent), and the United States (10.5 percent).[778] There are also stark regional polarisations in unemployment, with the official unemployment rate rarely exceeding 5-6 percent in Budapest and Northwestern Hungary, while it was not uncommon that unemployment in the Northeast and Southern parts of the country stood at 25 percent (and in some cases even higher). According to a report by Eurequal, working class towns in Northern Hungary, where much of the country's heavy industry and mining had been concentrated prior to 1989, were particularly badly hit by the 'transformational recession' in the 1990s.[779] In Borsod-Abaúj-Zemplén county, located in Northern Hungary and once considered 'the Ruhr area of Hungary', official unemployment stood at 20.4 percent in 2000 (the highest in the country).[780] Third, and finally, unemployment also has an ethnic and gender dimension in Hungary. Neoliberal restructuring had catastrophic consequences for Hungary's Roma population, which is the country's largest ethnic minority accounting for 3.2 percent of the population in 2011.[781] The employment rate of the Roma dropped by more than half between the mid-1980s and the mid-1990s, from 75 to 30 percent.[782] In 1997, Martin Kovats, a British researcher on Roma politics, painted the following dramatic picture of the situation:

> The last ten years have been a disaster for the majority of Hungary's Roma population. Most of those who had work have become unemployed, and young people coming through are

[777] Source: Eurostat Statistical Database, *Employment (main characteristics and rates)*. Available on: http://appsso.eurostat.ec.europa.eu/nui/submitViewTableAction.do;jsessionid=9ea7d07d30d7886cbc02ead44ba589e9ce67dfbfa30d.e34MbxeSaxaSc40LbNiMbxeNbx8Oe0.

[778] Source: Eurostat Statistical Database, *Unemployment rate by sex and age groups*. Available on: http://appsso.eurostat.ec.europa.eu/nui/submitViewTableAction.do.

[779] Eurequal, *The State of Inequality in the Central and Eastern Europe: Desk Research on Hungary*, Oxford: Eurequal, 2006, pp. 21-22.

[780] Source: KSH Statistical Database.

[781] KSH, *Hungary Population Census 2011*. Available on: http://www.ksh.hu/nepszamlalas/tablak_demografia (last accessed on: 11 December 2013).

[782] Fóti, *Alleviating Poverty...*, p. 21.

> denied opportunities. Half-hearted government policies to improve the social and economic position of the Roma have failed to halt the rapid rise in Roma poverty. Neither have they addressed poverty-related problems such as falling standards of education, anxiety, poor health, crime, prostitution, etc. The scale of problems are mounting and they have to be addressed if Hungary is to make any long-term social, political or economic progress.[783]

The situation has hardly improved since. Many Roma people continue to face discrimination in society and live in impoverished conditions resembling those described by Charles Dickens in *Oliver Twist*.[784]

The neoliberal restructuring of the Hungarian economy also came at a high social cost. Throughout CEE and the former Soviet Union, transition-associated adjustments contributed to a 'transformational recession', whose effects even the World Bank admitted was 'comparable to that of developed countries during the Great Recession, and for most of them it was much worse'.[785] In Hungary, economic output measured in GDP per capita terms only returned to its 1989 level in 1999, but this was still considered a (relative) 'success' by the proponents of neoliberal reform, bearing in mind that many other 'transition economies' only reached their 1989 level by 2002.[786] Even by 2005, countries like Russia and Ukraine had still not recovered their 1989 levels of GDP per capita, while some other countries, like Moldova, were still 50 percent below their 1989 levels of GDP per capita.[787] But by then ordinary citizens had paid a heavy burden for the slump. Between 1990 and 1992 wages plummeted – by 33.6 percent in Poland, 21.5 percent in Czechoslovakia, and 14 percent in Hungary.[788] As Genov points out, in no country affected by the Great Depression of the 1930s did real wages decline as sharply as they did in CEE during the 1990s.[789] Ten years after the transition, in 1999, real wages were still lagging behind their 1989 levels in all countries except the Czech Republic; in Hungary real wages

[783] Kovats 1997, here cited in Andor and Summers*, Market Failure...*, p. 123.
[784] For example, according to a 2004 study by TÁRKI, the prevalence of poverty was almost seven times higher for households with a Roma head of family compared to others. See TÁRKI, *Hungary: Social Report 2004*, Budapest: TÁRKI, 2004, p. 103. On the discrimination of Roma in urban spaces, see János Ladányi, 'Patterns of residential segregation and the Gypsy minority in Budapest', *International Journal of Urban and Regional Research*, 1993, Vol. 17, No. 1, pp. 30-41 and 'Residential Segregation among Social and Ethnic Groups in Budapest during the Post-Communist Transition', in *Of States and Cities: The Partitioning of Urban Space*, edited by Peter Marcuse and Ronald van Kampen, Oxford: Oxford University Press, 2002, pp. 170-182.
[785] World Bank, *Transition – The First Ten Years*, p. 3.
[786] EBRD, *Transition Report 2002*.
[787] Source: World Bank, World Development Indicators.
[788] Gowan, *The Global Gamble*, p. 203.
[789] Genov, *Global Trends in Eastern Europe*, p. 138.

were 19 percent less, while in many other countries (including Bulgaria, Lithuania, Macedonia, and Ukraine) it was around half that level.[790] The fall was particularly steep in Russia, where real wages, in 1999, stood at a meagre 38.2 percent of their 1989 levels.[791]

Making matters worse for those adversely affected by transition-associated adjustments, welfare provisions have been strenuously cut by successive governments in Budapest, irrespective of where they stand on the political spectrum. Between 1991 and 1996, social expenditure as a percentage of GDP had been scaled back from 39 to 29 percent, while, as a proportion of household income, it was reduced from a high of 18.7 percent in 1992 to 12.9 percent in 1999.[792] Drastic cuts in welfare provisions have been accompanied by what Andor describes as a 'new thinking' on social policy amongst Hungarian policymakers.[793] One of the forerunners of this discourse was László Békesi, the former finance minister of the first socialist-liberal government, who has tirelessly sought to legitimise neoliberal austerity measures on the basis that 'Hungarians have been living beyond their means.'[794]

Similar to other regions of the world, neoliberal restructuring has resulted in an *increasing polarisation of income* in CEE and the former Soviet Union.[795] Social inequality was of course never eradicated under 'actually existing socialism', despite all the rhetoric to the contrary,[796] but there has been an intensification of inequality throughout the region since the double transformation. As the table below indicates, the rise in income inequalities in Hungary was milder than in other transformation economies, such as Poland or Russia (in the former there was a 20 percent increase in income inequality between 1988 and 2006, whereas the same figure in the latter two countries was 30 and 66 percent respectively). In comparison to other EU or OECD states, Hungary is thus placed in the middle range in

---

[790] UNICEF 2001, here cited in Genov, *Global Trends in Eastern Europe*, p. 138.
[791] Ibid.
[792] Phillips et al., 'Usurping Social Policy', pp. 590-591; World Bank, *Hungary: On the Road to the European Union*, pp. 137-138.
[793] Andor*, Hungary on the Road to the European Union*, p. 94.
[794] Ibid. A similar line of reasoning could be detected behind the famous phrase coined by János Kornai, who associated Hungary with a 'premature welfare state'. See Kornai, 'Transzformációs visszaesés'.
[795] On income inequalities under the neoliberal era, see Harvey, *A Brief History of Neoliberalism*, pp. 15-19, 88, 92, 100.
[796] On inequality in Hungary during 'actually existing socialism', see Iván Völgyes, 'Modernization, Stratification and Elite Development in Hungary', *Social Forces*, 1978, Vol. 57, No. 2, pp. 500-521; Szonja Szelényi, Social Inequality and Party Membership: Patterns of Recruitment into the Hungarian Socialist Workers' Party', *American Sociological Review*, 1987, Vol. 52, No. 5, pp. 559-573.

terms of income inequality; on a similar level with France and Spain, but well below countries with more conspicuous income inequalities, like Mexico and the United States.[797]

Table 5.7. Inequality in CEE and selected countries of the former Soviet Union as per GINI Index[798]

	1988-1989	1992-1994	1995-1997	1998-2000	2001-2003	2004-2006
Bulgaria	23	28	31	26	32	N/A
Czech Republic	19	27	25	N/A	N/A	25
Estonia	23	40	30	37	35	36
Hungary	*25*	*28*	*30*	*27*	*27*	*30*
Latvia	22	27	31	34	37	36
Lithuania	22	35	32	31	34	36
Poland	27	30	33	33	33	35
Romania	23	27	N/A	30	31	32
Russia	24	48	46	44	40	N/A
Slovakia	20	19	26	N/A	N/A	28
Slovenia	N/A	29	N/A	28	N/A	31
Ukraine	23	26	37	29	28	28

In terms of income dispersion, the ratio between the highest and lowest 10 percent of per capita household income *increased* from 4-5 times the late 1980s, to 8.4 times in 2003, despite the negative impact of the 'transformational recession', high inflation, and the sharp rise in unemployment in the early 1990s.[799] In concrete terms, this translates into staggering differences in wealth: while the richest 1 million of the population control 25-26 percent of national wealth, the poorest 1 million owned a mere 3 percent.[800]

The growing polarisation of income on a national level has been accompanied by *deepening regional inequalities*. Empirical studies demonstrate that Hungary exhibits the highest level of 'sub-national territorial inequality' amongst the EU-27 states, followed by Bulgaria, Slovakia, and Romania.[801] While the industrialised regions of around Budapest and Northwestern Hungary have 'surged ahead' thanks to the arrival of foreign investment,

---

[797] Márton Medgyesi, 'A jövedelmek eloszlása az EU országaiban', in *Társadalmi Riport 2008*, edited by Tamás Kolosi and György I. Tóth, Budapest: TÁRKI, 2008, pp. 148-167; OECD, *Divided We Stand: Why Inequality Keeps Rising*, Paris: OECD Publishing, 2011.

[798] Source: Myant and Drahokoupil, *Transition Economies,* Table A.17; World Bank, World Development Indicators; KSH. Note: The Gini Index measures the extent to which the distribution of income (or, in some cases, consumption expenditure) among individuals or households within a national economy deveiates from a perfectly equal distribution.

[799] *TÁRKI, Hungary: Social Report 2004*, p. 51.

[800] Ignác Romsics, 'Mérlegen a magyar XX. század', *Élet és Irodalom*, Vol. 54, No. 9, 5 March 2010.

[801] Adrian Smith and Judit Timár, 'Uneven transformations: space, economy and society 20 years after the collapse of state socialism', *European Urban and Regional Studies*, 2010, Vol. 17, No. 2, pp. 115-125.

much of the former state capitalist 'rust belt' of Northeastern Hungary has either failed to 'take off' altogether or struggled badly. In a striking parallel to the areas of Britain that experienced the greatest job losses in manufacturing and the mining industry under Thatcherism, these are today the areas of Hungary that exhibit the highest levels of unemployment, poverty, and related social problems. Perhaps even more emphatic has been the increasing inequality *within* rural and urban areas of Hungary. In Budapest, writes one sociologist, average life expectancy in District 2, which includes the famous and historically prestigious Rózsadomb area, is 'on the level of Belgium, while in District 10 [in Pest] it approximates that of Syria.'[802] These differences are also expressed in plain numbers: there is a six-year difference in average life expectancy between the two parts of the city, while in terms of number of welfare recipients, the difference is threefold.[803] 'Budapest is splitting into two parts', argues the Hungarian sociologist János Ladányi, when analysing the increasing socio-economic segregation of post-1989 Budapest. 'Parts of the city inhabited by higher-status social groups look more and more like similar areas in western Europe. By sharp contrast, other parts, inhabited by the losers of postcommunist transition, tend to resemble parts of cities of the Third World.'[804]

The Economic and Political Limitations of Neoliberalism 'With Hungarian Characteristics'

In the above sections we have outlined the central characteristics of the specific neoliberal regime of accumulation that became consolidated in Hungary after 1989. On the basis of this, some considerations can be made. *Contra* the arguments of neoliberal economists, as well as Bohle and Greskovits, a critical assessment of the economic, political, and social outcomes of neoliberal restructuring suggests that it was built on weak foundations.

As we noted in the previous section, one of the most striking characteristic of Hungary's neoliberal regime of accumulation, was its heavy reliance on foreign capital. This was, as we have argued, the result of a strong commitment by the Hungarian state towards export-led growth driven by transnational corporations based in Hungary (albeit the modalities in

---

802 István Tosics, 'Lakáspolitika – szociális várospolitika', *Budapesti Negyed*, Vol. 8, No. 2, p. 143.
803 Ibid.
804 Ladányi, 'Residential segregation...', p. 170.

which this has been expressed has undergone significant modifications over the years). As an indication of Hungary's dependence on foreign investment, inward FDI stock as a percentage of GDP accounted for 70.2 percent in 2006, the second highest amongst the 'transition economies' after Estonia (75.6 percent) and significantly higher than that of other advanced capitalist states, such as Germany (20.4 percent) and the United States (24.6 percent).[805] *However, by the turn of the century, the material foundations of the Hungarian model were drying up*. On the one hand, revenues from the privatisation of previously state owned enterprises were decreasing in importance, as the majority of the Hungarian manufacturing and services industry had already been sold to foreign investors. On the other hand, the attraction of new foreign investment was also becoming increasingly difficult, as a result of increasing inter-state state competition, both within the region and globally following the rapid rise of China as the 'workshop of the world', as well the relatively high labour costs in Hungary.[806] As a result, there was a noticeable decrease in FDI inflows to Hungary. Between 1999 and 2004 Hungary's share of total FDI inflows to the CEE dropped by more than 50 percent in the period between 1999 and 2004, from 31 to 13.6 percent. As a result, economic growth was showing signs of running out of steam: the Hungarian economy was the only one in the region where the average annual growth rate *decreased* following EU accession.[807] Thus, by 2005, *The Economist*, which previously had praised Hungary as a 'frontrunner' of market reform, was describing the country as 'the laggard of Central Europe'.[808]

Faced with this situation, there was *increasing political pressure* on Hungarian policymakers, both from abroad and at home, to push ahead with deeper 'structural reforms', in order to improve the country's 'competitiveness' in the global economy. But implementing these reforms proved to be difficult at a time when Hungarian politics was becoming increasingly polarised and characterised by 'cutthroat party competition' between the socialist-liberal government and the national-conservative opposition.[809] The political situation worsened in 2006 when, fresh from having won a historic re-election on a slogan of 'reform without austerity', Prime Minister Gyurcsány admitted that there was a

---

[805] Source: UNCTAD Statistical Database. Available on: http://unctad.org/en/Pages/Statistics.aspx.
[806] Bohle and Greskovits. *Capitalist Diversity on Europe's Periphery*, pp. 141-146, 166-170; Drahokoupil, *Globalization and the State in Central and Eastern Europe*, pp. 46-58; Fink, 'FDI-led Growth and Rising Polarisations in Hungary', pp. 52-53.
[807] Bohle and Greskovits. op. cit, p. 240.
[808] The Economist, 'Transformed'.
[809] On the Hungarian politics in this period, see Bohle and Greskovits. op. cit, pp. 178-179, 240-241.

need for economic belt-tightening. He announced a complete turnaround in government policy, marked by the introduction of a draconian austerity package, which included the imposition of new taxes and fiscal expenditure cuts, in line with the Maastricht criteria, and comprehensive structural reforms in public administration, education, health care, and the pension system.[810] As a result, the MSZP-SZDSZ government's popularity quickly plummeted.[811] But the rot did not stop there.

On 18 September 2006 massive anti-government protests erupted in Budapest, on a scale unprecedented in the brief history of the new Hungarian democracy, while violence broke out between far right groups and the police, when the former broke into the offices of the state television office and set fire to it.[812] The demonstrations followed the after the revelation of a secret speech by Prime Minister Gyurcsány. In the speech, he admitted, using particularly foul language, that the socialist-liberal government had 'lied morning, noon, and night', in order to win the general elections earlier in the year.[813] 'Protests continued for months, deteriorating rapidly, dominated by the symbolism of the Arrow-Cross, the Hungarian Nazis famous for their anti-Jewish terror in the encircled Budapest in 1944.'[814] According to the dominant view expressed by the mainstream media and experts, the turmoil reflected the 'moral crisis' of the MSZP and the SZDSZ and/or limitations of the 'populist' economic policies pursued successive governments in Budapest, irrespective of their political colour. The former view was spearheaded by FIDESZ, the main opposition party, whose leaders vehemently criticised the 'mendacious' socialist-liberal government for its austerity drive and, after having swept to a landslide victory in the local election held in early October, called for the resignation of the Prime Minister.[815] The latter view, was primarily proposed by neoliberal economists, but can also been seen in the

---

[810] GoH, *Az Új Egyensúly programja, 2006-2008*, Budapest: Government of Hungary, 2006.
[811] One opinion poll in 2006 showed that, in a matter of months, support the MSZP-SZDSZ government dropped by 10 percent. At the same time, the number of those that believed that things were going 'in the right direction' also fell sharply, from 42 percent to 19 percent. Source: Medián, 'Apadó Fidesz-előny', 13 December 2006. Available on: http://www.median.hu/object.104f145f-98ae-4962-856a-bef6acb40b2e.ivy (last accessed on: 12 September 2014).
[812] Tamás, 'Counter-revolution against a counter-revolution'.
[813] BBC, 'Excerpts: Hungarian Lies Speech', 19 September 2006. Available on: http://news.bbc.co.uk/1/hi/world/europe/5359546.stm.
[814] Tamás, op. cit.
[815] The move was supported by politicians and intellectuals from across the political spectrum, from the conservative President of the Republic László Sólyom, through the liberal philosopher and former leader of the SZDSZ János Kis, to the Marxist philosopher G.M. Tamás.

writings of institutionalist scholars, such as Andor and Bohle and Greskovits.[816] In contrast to this, we argue that there were *deeper, structural reasons and connections* behind the demonstrations. This, of course, does not mean the denial of the existence of a 'moral crisis'. However, the latter is arguably only considered a by-product of the deepening contradictions of the neoliberal regime of accumulation that had developed after 1989. Yet, despite mounting signs of a looming 'systemic crisis'[817] of Hungarian capitalism, the ruling MSZP-SZDSZ coalition remained committed to the prime minister and his austerity drive. As it had done some ten years earlier, during the introduction of the infamous 'Bokros Package', 'the Socialist Party downsized its engagement with civil society severing its remaining ties to the trade unions, turned a blind eye to an unprecedented drop in voters' support, and ignored popular protest. It tied its fate increasingly to a narrow circle of domestic and transnational actors eager to continue harsh economic reforms.'[818]

Conclusion

The aim of this chapter was twofold: firstly, to analyse the central agents and means through which neoliberalism was consolidated in Hungary in the period between 1990-2006, and secondly, analyse the outcomes of this process. While we agreed with the commonly held view in the literature that Hungary did in a certain sense become a 'vanguard state' of neoliberalism in the region during this period (characterised by a highly open political economy geared towards foreign direct investment), our analysis differed on two important points. Firstly, while acknowledging the important role of external forces and pressures in this process, we emphasised the key role of *domestic* social forces (in particular an 'unholy alliance' comprised of sections of the domestic capitalist class, political elites, and neoliberal technocrats with connected to policymakers in the West, international financial institutions, and multinational corporations), in lubricating the different actors of the Hungarian economy to maintain neoliberal regime of accumulation. While we noted that the neoliberal restructuring of the Hungarian political economy was

[816] László Békesi, 'A magyar gazdaság helyzetéről, kilátásairól, a gazdaságpolitika dilemmáiról és feladat-airól', *Élet és Irodalom*, Vol. 54, No. 9, 5 March 2010; Lajos Bokros, 'A reformok kritikus tömege, I-II', *Élet és Irodalom*, Vol. 53, No. 4, 23 January 2009; Lengyel, *Pretoriánusok kora*. See also Andor, *Eltévedt éllovas*; Bohle and Greskovits. *Capitalist Diversity on Europe's Periphery*.
[817] Erzsébet Szalai, 'Morális krízis vagy rendszerválság?', *Élet és Irodalom*, Vol. 50, No. 43, 27 October 2006; Gáspár M. Tamás, 'Vallásháború vagy osztályharc', *Élet és Irodalom,* Vol. 50, No. 40, 6 October 2006.
[818] Bohle and Greskovits, op. cit., p. 241.

promoted by all post-1989 governments in Hungary (albeit with differences in emphasis, for example on the question of whether to prioritise 'foreign-led' or 'domestically-driven' capital accumulation), we emphasised the vital role of successive social-liberal governments in this process (most notably illustrated through the introduction of Hungary's largest austerity programme, also known as the 'Bokros Package', launched in 1995 by the Horn government). This account does not only question the dominant view of the neoliberal transformation in Hungary and elsewhere in CEE as an *externally*-driven project, but also questions the idea that neoliberalism was/is a 'conservative *re*action' against the welfare state in all its different forms, which remains dominant on much of the Left to this day.

Secondly, in contrast to dominant accounts in the literature, we argued that the neoliberal restructuring of the Hungarian political economy *after* 1989 was not a straightforward 'success story', but was rather plagued by contradictions and limitations. At the most general level, this means that the country has been reintegrated as a semi-peripheral player in the world economy, but this masks stark inequalities. While the arrival of foreign investment has enabled areas in the historically more developed Northwestern and Central Hungary to join the 'global city', characterised by skilled labour and high productivity, large parts of Northeastern and Southern Hungary have been confined to the 'global village', with high unemployment and poverty, and low standards of living.[819] Hungary's 'new bourgeoisie' in their kitsch, 'neo-Habsburg' palaces in Buda hills live as if on a completely different planet compared to their fellow citizens on the other of the Danube, in the rundown working class neighbourhoods of Pest.[820] Moreover, existent inequalities have been worsened by strenuous cuts in welfare provisions by successive governments in Budapest, irrespective of where they stand on the political spectrum. Rather than a fairytale then, the reality of Hungary's neoliberal transformation turned out to be much more akin to a nightmare.

By late 2006, Hungary's neoliberal regime of accumulation was facing increasing economic and political limitations. Although the Hungarian economy had grown by an impressive average rate of more than 4 percent annually between 1997 and 2006, the

---

[819] Dale, 'Introduction: The Transition in Central and Eastern Europe', p. 14.
[820] Judit Bodnár, 'Becoming Bourgeois: (Postsocialist) Utopias of Isolation and Civilization', in *Evil Paradises: Dreamworlds of Neoliberalism*, edited by Mike Davis and Daniel B. Monk, New York, NY: The New Press, 2007, pp. 140-151.

material foundations of this growth were dwindling, as the inflows of foreign capital were drying up. Faced with growing economic pressures, the newly re-elected socialist-liberal government of Prime Minister Gyurcsány decided to break with its electoral promises and push ahead with unpopular neoliberal reforms, in the hope that these measures would revive the Hungarian economy and enable his government to regain the thrust of the electorate. However, as we shall see in the next chapter, this would turn out to be a difficult balancing act at a time when the world economy was heading straight towards one of the worst crises of in the history of capitalism.

FROM 'POSTER BOY' OF NEOLIBERAL TRANSFORMATION TO 'BASKET CASE': HUNGARY AND THE GLOBAL ECONOMIC CRISIS, 2007-2014

Introduction

In the previous chapter we analysed the consolidation of neoliberalism in Hungary between 1990-2006. We argued that the neoliberal restructuring of the Hungarian political economy was pursued by all post-transition governments in Budapest (albeit to different degrees), in the hope that this would improve the 'competitiveness' of the ailing Hungarian economy, resulting in economic growth and higher living standards to ordinary Hungarians. However, the outcome of this process was the creation of a regime of accumulation that was built on weak foundations, as manifested by the massive anti-government protests that shook Hungary in the autumn of 2006. In this chapter we turn our attention to more contemporary debates, analysing the impact of the ongoing global economic crisis on the Hungarian political economy.

As we have noted in passim, Hungary has for long been a 'poster boy' of neoliberal transformation in the CEE. However, as the negative effects of the financial crisis started to be felt in 2008, its *bon renommé* in international policymaking and business circles quickly evaporated. The international business press has singled out Hungary as one of the *bêtes noires* of the current crisis. This 'return to fame' largely stems from the fact that the signs generally associated with the global crisis – financial meltdown, falling levels of production, growing unemployment and falling living standards, widespread disillusionment and public anger (channelled through rabid, reactionary politics) – are all present in an exacerbated form in present-day Hungary.

In light of the above, the next section of this chapter presents a chronology of the problems that the Hungarian economy has faced since 2007 until mid-2010. In the third section, we present a critical overview of the four narratives that have dominated mainstream discourse about the crisis in Hungary. Finally, in the fourth section, we outline the central features of an alternative interpretation, which builds on central concepts in Marxian political economy, in particular Marx's concept of the 'law of value' and Trotsky's theory of 'uneven and combined development'. It depicts the crisis as the outcome of *external* (a global crisis *in* neoliberalism – although not necessarily *of* neoliberalism) and *internal* (contradictions inherent in Hungary's neoliberal regime of accumulation) pressures confronting the national economy and the state. As we go on to argue, it is against this background that we need to understand the policies pursued since 2010 by the national-conservative FIDESZ-led government led by Prime Minister Viktor Orbán.

An Economic Tsunami Sweeps Down the Danube: The Three Phases of Hungary's Crisis (Up Until 2010)

The 'global crisis' has evolved in three interdependent and mutually reinforcing ways. What started out in 2007 as a 'crisis in the heartland'[821] of global capitalism with the bursting of the 'sub-prime' mortgage bubble in the United States, had within a year evolved into a global 'credit crunch', which the IMF at the time estimated to cause the global economy losses of at least US$ 1 trillion.[822] The credit crisis subsequently spread rapidly to the 'real' economy. According to the World Bank, global economic output declined by 2.1 percent in 2009.[823] By then, total write-downs on global exposures were estimated to reach US $ 4 trillion or more.[824] Since then, policymakers, international business papers and mainstream economists have desperately tried to identify signs of

[821] Peter Gowan, 'Crisis in the Heartland. Consequences of the New Wall Street System', *New Left Review*, 2009, No. 55, pp. 5-25.
[822] IMF, *World Economic Outlook, April 2008*, Washington, DC: International Monetary Fund, 2008.
[823] Source: World Bank, World Development Indicators.
[824] IMF, *World Economic Outlook*, *April 2009*, Washington, DC: International Monetary Fund, 2009.

‘green shoots’ of recovery, but with little success.[825] In what follows, we provide an overview of the impact of the global economic crisis on Hungary and other CEE economies.

First Wave: Storms Gathering Around CEE

The ten ‘post-communist’ countries (EU-10) that joined the EU in 2004 and 2006 were hit by the global crisis in a succession of waves.[826] The first, which followed after the onset of the sub-prime mortgage crisis in the US, was generally not perceived as a threat to these economies. As we noted in the previous chapter, inflows of foreign capital to the region had gradually risen since 1989, and showed no signs of abating in the first-half of the 2000s. Between 2000-2007 a total of more than US$ 305 billion of foreign direct investment poured into the EU-10 economies.[827] As one of the leading ‘reformers’ in the region, Hungary had been one of the prime recipients of foreign investment in the region, with cumulative FDI between 1989 and 2007 reaching nearly US$ 64 billion.[828] However, before we take this figure as an indication of the inevitable ‘flattening’ of the world brought about by benevolent effects of neoliberal globalisation (to borrow a famous phrase from *New York Times* columnist and pro-globalisation advocate Thomas L. Friedman[829]), these figures need to be put into perspective. In so doing, they illustrate what the Marxist political economist Bill Dunn has described as the ‘enduring pertinence of geography’ for capital accumulation.[830] Whilst increasing in relation to previous years, the total amount of FDI inflows to the EU-10 economies between 2000 and 2008 still only represented 3.6 percent of total FDI flows in the world.[831]

---

[825] Barry Eichengreen and Kenneth H. O’Rourke, ‘A tale of two depressions: What do the new data tell us?’, *VoxEU*, 2010. Available on: http://www.voxeu.org/article/tale-two-depressions-what-do-new-data-tell-us-february-2010-update (last accessed on: 31 December 2013).

[826] IMF, ‘The Credit Boom in the EU New Member States: Bad Luck or Bad Policies?’. IMF WP/10/130, prepared by Bas B. Bakker and Anne-Marie Gulde, May 2010, Washington, DC: International Monetary Fund; Paul Marer, ‘The Global Economic Crises: Impacts on Eastern Europe’, *Acta Oeconomica,* 2010, Vol. 60, No. 1, pp. 3-33.

[827] Figures are from UNCTAD Database and based on US $ current prices and current exchange rates.

[828] Ibid.

[829] Thomas L. Friedman, *The World is Flat: A Brief History of the Twenty-first Century*, New York, NY: Farrar, Straus & Giroux, 2005.

[830] Dunn, *Global Political Economy*, p. 170.

[831] Own calculations based on figures from UNCTAD Statistical Database.

Having said this, the economies of CEE were, in a sense, becoming a 'destination of choice'[832] for capital. Indeed, between 2003 and 2007 the unweighted average of capital inflows (107 percent of GDP) to the EU-9 (the EU-10 minus Slovenia) was almost three times as high as in the emerging Southeast Asian economies of Indonesia, Philippines and Thailand prior to the Asian financial crisis of 1997-1998 (38 percent of GDP in 1992).[833] The positive flow of foreign capital continued even when share prices of investment banks and hedge funds began to fall in the US and Western Europe in late 2006. Hence, net private capital flows to the EU-9 *increased* from 8.1 percent of GDP in 2006 to 11.6 percent of GDP in 2007 – well above the average for all emerging market economies (3.8 percent).[834] The credit bonanza in the region seemed interminable.

No wonder then the official view in policymaking circles and among international investors at the time was that the 'sneeze' caught by the US economy following the sub-prime mortgage crisis was not going to cause any severe flu in the EU-10 economies. Despite signs of problems looming ahead for the world economy, the dominant view about the prospects of the transformation economies in CEE remained relatively upbeat.[835] The IMF projected in October 2007 that average GDP growth in CEE was to fall moderately, from 6.7 percent in 2002-2007 to 5.0 percent in 2008-2012. Hungary's decline was expected to be modest: down from 3.6 percent in 2002-2007 to 3.4 percent in 2008-2012.[836] This relatively optimistic view was reiterated one month later by the Secretary General of the OECD Ángel Gurría, who, in an interview with the Hungarian daily *Népszabadság*, asserted: 'The Hungarian economy is currently preparing its next growth cycle. … There is no need be dramatic about the current situation. There is no crisis [in Hungary].'[837] In a sense, he turned out to be right, although perhaps not in the sense that he intended. The worst, as we shall see below, was still to come.

---

[832] IMF, 'The Credit Boom...', p. 4.
[833] Ibid., p. 5.
[834] IMF, *World Economic Outlook, April 2010*, Washington, DC: International Monetary Fund, 2010; IMF, op. cit., p. 6.
[835] One of the few dissenting voices within mainstream debates was that of Nouriel Roubini. A former advisor to President Clinton and economics professor at New York University, Roubini, argued already in late June 2006 that 'Hungary is an accident waiting to happen.' See Nouriel Roubini, 'Hungary faces enormous economic hurdles', *USA Today*, 22 June 2006.
[836] IMF, *World Economic Outlook*, *October 2007*, Washington, DC: International Monetary Fund, 2007.
[837] Gurría 2007, here cited in Miklós Blahó, 'A magyar gazdaság átmeneti állapotban van', *Népszabadság*, 16 November 2007.

Second Wave: 'A Vulnerable Antelope on the Savannah of Global Finance'

The second wave of the crisis was less benign to the CEE economies. Following the collapse of the US investment bank Lehman Brothers in September 2008, widely considered as 'one of the pillars of the US's financial system',[838] liquidity dried up in global financial markets, as investors retracted to 'safer' havens in the core capitalist states. Faced with this situation, the openness of the region's economies turned out to be a recipe for disaster. The combination of relatively small economies (with the exception of Poland), together with extreme openness to foreign capital and high dependency on exports, left the region highly exposed to the effects of the credit crunch.

The Hungarian economy fitted these descriptions perfectly. As we described in detail in the previous chapter, Hungary's level of economic openness is extremely high, bearing in mind its small size in relation to the global economy. The share of trade to total GDP amounted to 161.4 percent in 2008 (highest among the EU-10 economies) and 70 percent of this trade went to advanced economies.[839] As a further indication of Hungary's embeddedness into the global economy, the country ranked as the sixth 'most open' developed economy in the world, after Belgium, Luxemburg, Estonia, Bulgaria, and Slovakia, according to the 2005 UNCTAD Transnationalization Index, well ahead of most advanced capitalist states, including Germany, Japan, the United Kingdom, and the United States.[840]

Hungary's vulnerability to 'financial tsunami' that was now hitting the world economy was worsened by what international investors perceived as the dire state of its public finances.[841] At a first look, this fear appears somewhat exaggerated. While it is true that Hungary's consolidated government debt in 2008 (73 percent) was significantly higher than the average for the EU-10 economies (26.5 percent), it was not substantially above the average of the old EU-15 member states (59.6 percent).[842] Indeed, numerous countries within the EU – including Greece (112.9 percent), Germany (66.8 percent), France (68.2

[838] Harman, *Zombie Capitalism*, p. 277.
[839] EBRD, *Transition Report 2009: Transition in Crisis?*, London: EBRD, 2009.
[840] UNCTAD, *World Investment Report 2008*, p. 12, Figure I.7. See also Zoltán Pogátsa, *Éltanúló válságban. Állam és piac a rendszerváltás utáni Magyarországon*, Budapest: Figyelő, 2007.
[841] Andor, 'Hungary in the Financial Crisis...', pp. 286-287; Zsolt Darvas, 'The rise and fall of Hungary', *The Guardian*, 29 October 2008.
[842] Source: Eurostat Statistical Database, *Government deficit/surplus, debt and associated data*. Available on: http://appsso.eurostat.ec.europa.eu/nui/submitViewTableAction.do.

percent), Italy (106.1 percent) and Portugal (71.7 percent) – had similar or considerably higher levels of government debt.[843] However, the great difference between these countries and Hungary was that the former were larger in size and also benefited from longer maturity periods on their sovereign debt. The weighted average of maturity on Hungary's sovereign debt was only 3.3 years – lower than all the countries listed above.[844] In addition, investors were also growing worried about the high indebtedness of Hungarian households and the private sector. The level of private sector indebtedness stood at 67.6 percent of GDP in 2008 (fourth highest among the EU-10 economies), while household debt stood at 27.4 percent of GDP (third in the region after Estonia and Latvia). The fact that the majority of these debts had been taken out in Swiss *francs* or *Euros*, against which the Hungarian *forint* depreciated sharply in October 2008,[845] brought investors' worries about the state of the Hungarian economy further towards boiling point.[846]

These concerns finally boiled over in October 2008 when foreign investors sold more than US$ 2 billion of Hungarian government securities (nearly 5 percent of Hungary's foreign-owned securities at the time) within a couple of days.[847] At the same time, long maturity interest rates jumped from the already high 8.5 percent to 11.5 percent and the government bond market dried up.[848] As a result, government officials and policymakers in Budapest were forced to admit that Hungary was under increasing threat of an 'attack' on its financial system. The Governor of the MNB András Simor, vividly depicted the graveness of the situation in an interview with US television channel CNBC, when he compared Hungary's situation to lions' pursuit of antelopes on the Savannah. Similar to the lions (who select slower, weaker and more vulnerable antelopes as their prey), Simor argued that speculators had targeted Hungary as the next country, after Iceland, to suffer in the global financial crisis.[849]

---

[843] Eurostat Statistical Database, *Government deficit/surplus, debt and associated data*. See also Martin Myant and Jan Drahokoupil, 'Transition Economies after the Crisis of 2008: Actors and Policies', *Europe-Asia Studies*, 2013, Vol. 65, No. 3, Table 6, p. 378.
[844] *The Economist*, 'Debt sustainability: Not so risk free', 11 February 2010.
[845] In October 2008, the value of the *forint* fell from 240 to 280 against the Euro, a fall of 17 percent. Marer, 'The Global Economic Crises', p. 21.
[846] The Hungarian government estimated that 10-15 percent of these loans were 'endangered' (eg. liable to default). As a result, of the depreciation of the *forint* many borrowers had to sell their homes, while others faced hefty hikes in mortgage payments. See Chris Bryant, 'Hungarians in Debt to Swiss Franc', *Financial Times*, 16 July 2010.
[847] Marer, op. cit., p. 21.
[848] Darvas, 'The rise and fall of Hungary'; Marer, op. cit., p. 21.
[849] András Simor, 'Hungary Says It's Not Iceland', *CNBC.com*, 2008. Available on: http://video.cnbc.com/gallery/?video=899424610 (last accessed on: 17 December 2013).

Faced with this quagmire, the socialist-minority government led by Prime Minister Gyurcsány[850] decided to appeal for financial assistance from international lenders.[851] A bailout package of US$ 25.1 billion was provided to Hungary (with the IMF providing two-thirds of the sum, the EU covering the majority of the remaining sum and the World Bank 'chipping in' with a little more than US $ 1 billion in assistance). In order to regain the 'confidence of the markets', the government was convinced by Simor and others in the MNB to implement further austerity measures, including fierce welfare spending cuts and tax increases, which aimed to bring down the budget deficit from 3.7 percent in 2008 to 2.6 percent in 2009 – *beyond* than the requirements of the Maastricht criteria and those initially stipulated by the IMF.[852] These measures followed on from the drastic austerity package introduced by the socialist-liberal government in 2006, which had brought down the budget deficit from 10 percent to around 3 percent of GDP in just two years – 'a heroic achievement from the government and the people.'[853]

Third Wave: 'The Crisis Hits Head On'

By the end of 2008, the global financial crisis was transforming into what became known as a 'Great Recession', on a scale not seen since the Great Depression of the 1930s. Similar to the Great Depression of the 1930s, the freezing up of liquidity on global financial markets accelerated and deepened the slowdown in the world economy causing a destructive downward spiral of declining levels of production and trade, increasing bankruptcies, and rapidly falling levels of employment. According to the oft-cited analysis of the respected economists Barry Eichengreen and Kenneth O'Rourke, the overall performance of the world economy during the initial months of the Great Recession was even *worse* than the Great Depression: between April 2008 and February 2009 world industrial output fell by 13 percent (compared to 8 percent in the first months of the Great Depression); stock markets declined by 50 percent (compared to 15 percent for the Great

[850] SZDSZ, the junior partner in the government coalition, left the coaliation on 30 April 2008, in protest against Gyurcsány's dismissal of Ágnes Horváth, the Minister of Health and a member of the SZDSZ. However, the SZDSZ continued to support the policies of the Gyurcsány government.
[851] Gideon Rachman, 'Hungarian Lessons for a World Crisis', *Financial Times*, 11 May 2009.
[852] Lengyel, *Pretoriánusok kora*, p. 31.
[853] Andor, 'Hungary in the Financial Crisis...', p. 290.

Depression); and world trade fell by one-fifth (the same figure for the Great Depression was 5 percent).[854]

The third wave of the crisis hit the EU-10 economies head on. According to a 2009 World Bank report, the CEE economies were among 'the hardest hit by the ongoing global economic crisis'.[855] A quick look at the table below sheds some light on the grim realities of the crisis in the region.

Table 6.1. Selected economic indicators, end of 2009 (in percent)[856]

	GDP growth, at market prices	**Export of goods and services**	**Industrial production (except construction), gross value added at basic prices**	**Unemployment (registered)**
Bulgaria	- 5.5	- 11.2	- 8.0	6.8
Czech Republic	- 4.5	- 10.9	- 13.4	6.7
Estonia	- 14.1	- 21.3	- 19.2	13.8
Hungary	*- 6.8*	*- 10.2*	*- 14.4*	*10.0*
Latvia	- 17.7	- 13.1	- 14.9	17.5
Lithuania	- 14.8	- 12.6	- 14.3	13.6
Poland	1.6	- 6.8	1.2	8.1
Romania	- 6.6	- 6.4	- 1.4	6.9
Slovakia	- 4.9	- 16.3	- 16.1	12.1
Slovenia	- 7.9	- 16.1	- 15.2	5.9
EU-10 average	**- 8.1**	**- 12.5**	**- 11.6**	**10.1**
Selected comparators				
Germany	- 5.1	- 13.0	- 16.6	7.8
Greece	- 3.1	- 19.4	2.0	9.5
Ireland	- 6.4	- 3.8	N/A	12.0
Italy	- 5.5	- 17.5	- 15.1	7.8
Portugal	- 2.9	- 10.9	- 9.0	10.6[e]
Spain	- 3.8	- 10.0	- 11.4	18.0
Eurozone (12 countries)	- 4.4	- 12.3	- 12.9	9.6
United Kingdom	- 5.2	- 8.7	- 9.5	7.6
United States	- 2.8	- 9.1	N/A	9.3
China	9.2	- 10.3	N/A	N/A
Japan	- 5.5	- 24.2	N/A	5.1

[854] Eichengreen and O'Rourke, 'A tale of two depressions'.
[855] World Bank, 'Overview'.
[856] Source: Eurostat Statistical Database; World Bank, World Development Indicators.
[e] Estimated figures.

As the table reveals, the effects of the crisis have been variegated on different parts of the world economy.[857] With the exception of China (annual GDP growth of 9.2 percent) and Poland (1.6 percent), all economies listed in the table above experienced negative economic growth in 2009, ranging from 2.8 percent in the United States to 17.7 percent in Latvia. Although not as badly hit as the Baltic States, which 'have gone from being dubbed the "Baltic Tigers" to suffering the effects of the crisis in the most acute form in the EU',[858] Hungary was nonetheless hit hard by the global recession, with output contracting by 6.8 percent in 2009. However, it is important to remember that the performance of the Hungarian economy was deteriorating already *before* 2009, with the economy only growing by an average rate of 0.5 percent in 2007-2008,[859] as a result of the austerity measures implemented by the Gyurcsány government. The impact of the crisis was aggravated by the contraction in production experienced by Hungary's primary export markets (in particular Germany).[860] As a result, exports plummeted by 10.2 percent. With exports coming to a halt, industrial production fell by 14.4 percent in 2009 – the highest fall registered since 1991, when Hungary lost much of its Eastern markets as a result of the collapse of the CMEA.[861] The manufacturing sector was particularly badly hit by the reduction of global demand, with output falling by 18.4 percent on an annual basis. Amongst the subsectors within manufacturing, car production experienced the most severe slump, decreasing by nearly 30 percent on an annual basis.[862]

By 2009, Hungary's economic malaise was rapidly spilling over into the sphere of politics (this is described in further detail in section 4). In late March 2009, Prime Minister Gyurcsány resigned from his post, stating that he had become an obstacle to further economic and social reforms.[863] After an initial period of confusion, he was replaced by the young, but uncharismatic Gordon Bajnai, a former Minister of National Development

[857] For more detailed accounts of the impact of the crisis on other CEE economies, see Bohle and Greskovits. *Capitalist Diversity on Europe's Periphery*, pp. 223-258; Becker and Jäger, 'Development Trajectories in the Crisis in Europe', pp. 5-27; Dale, 'Introduction: The Transition in Central and Eastern Europe'; Hardy, 'Crisis and Recession...'.
[858] Jane Hardy, 'Crisis and Recession in Central and Eastern Europe', *International Socialism*, 2010, No. 128, pp. 111-129.
[859] Eurostat Statistical Database. See also WIIW, *Current Analyses and Forecasts 6*, 'Will Exports Prevail over Austerity?', prepared by Vasily Astrov, Mario Holzner, Gabor Hunya, Kazimierz Laski, Leon Podkaminer et al., July 2010, Vienna: Vienna Institute for International Economic Studies (WIIW).
[860] Becker and Jäger, op. cit., pp. 14-15.
[861] See Table 6.1. on previous page.
[862] Ábrahám, Ambrus 2010, 'Két évtizedes mélyponton a magyar ipar', *Népszabadság*, 16 February 2010.
[863] Nicholas Kulish, 'Hungary's Premier Offers to Resign', *New York Times*, 21 March 2009; John Nadler, 'Is Hungary the Financial Crisis' Next Iceland?', *Time Magazine*, 24 March 2009.

and Economy and ex-business partner to Gyurcsány, who took charge of a semi-technocratic government. As Bohle has pointed out, many of the members of the new government held 'close connections to transnational corporations.'[864] Although the new government virtually lacked any popular support and despite increasing signs of social and political instability – including fascist paramilitaries from the *Magyar Gárda* (Hungarian Guard) marching up and down the streets of the country terrorising the Roma population, gays and lesbians, and so called 'communists' –, it adamantly went ahead with the implementation of harsh austerity measures.

The combination of a global recession together with the austerity measures introduced by the Gyurcsány and Bajnai governments proved to be a poisonous mix for workers poor people in Hungary. By the end of February 2010, the official unemployment rate stood at 11.4 percent, the highest figure for 16 years.[865] Whilst this figure gives little reason to celebrate, it does not take into consideration the more than 1.3 million jobs that were shed in the first five years of Hungary's transformation, which, as we noted in the previous chapter, made Hungary a country suffering from chronically high underemployment.[866] As for those 'lucky' enough to have a job in Hungary, the situation was hardly rosier. Similar to elsewhere, capitalists responded to the downturn by attempting to raise the exploitation of Hungarian workers through the enlargement of the working day or increasing the intensity of work. Consequently, the Hungary is turning into one of the worst places to work in the EU. Weekly working hours for full-time employees in Q4 2009 stood at 40.7 hours (well above both EU-27 and EU-15 averages of 39.3 and 38.9 hours respectively).[867] Meanwhile, real wages decreased in 2007 by 4.6 percent and, after a virtually inexistent rise of 0.9 percent in 2008, fell again in 2009 by 4.5 percent (the third steepest fall amongst the CEE economies after Latvia and Lithuania).[868] Yet, there were not only 'losers' of Hungary's economic malaise, but 'winners' as well. Those at the top of Hungarian society

---

[864] Dorothee Bohle, 'Countries in Distress: Transformation, Transnationalisation, and Crisis in Hungary and Latvia', *Emecon: Employment and Economy in Central and Eastern Europe*, 2010, Vol. 1. No. 1. See also Lengyel, *Pretoriánusok kora*, pp. 45-49.
[865] *Népszabadság*, 'Tizenahat éves csúcson a munkanélküliség!', 29 March 2010. See also Thomas Escritt, 'Struggle to restore credibility after the crisis', *Financial Times*, 4 December 2009, p. 28.
[866] On the growth of unemployment in Hungary between 1990-2006, see pp. 205-212 above.
[867] Eurostat Statistical Database.
[868] WIIW, *Current Analyses and Forecasts*; Özlem Onaran, 'From transition crisis to the global crisis: Twenty years of capitalism and labour in the Central and Eastern EU new member states', *Capital & Class*, 2011, Vol. 35, No. 2, Table 1, p. 217.

were coming out relatively unscathed from the crisis: the wealth of the 10 richest Hungarians grew by HUF 124 billion (approximately US$ 557.5 million) in 2009.[869]

Dominant Narratives of Hungary's Vulnerability to the Crisis

Having seen the velocity with which Hungary found itself entangled with the global economic crisis, we are forced to ask why it became so vulnerable to its negative effects? In order to answer this question, journalists, policymakers, businessmen and academics have provided a number of competing interpretations. Similar to elsewhere, these arguments range from the simplistic and 'populist' to the complex and specialised.[870] Here, we focus on four distinct narratives, which have dominated mainstream discourse in Hungary. Below, we present the central aspects of these accounts.

Corrupt Politicians and Greedy Bankers are to Blame

The velocity with which the US sub-prime mortgages crisis unravelled into a global crunch left many of the world's financiers, regulators and politicians dumbfounded. For the average citizen it was a mixed feeling of anger and bewilderness. Apart from seeking to grapple with *how* this could happen, the question on most people's lips was *who* was to blame? Soon enough, the global news media were replete with examples of greedy bankers and corrupt politicians, at whom an accusing finger could be pointed.[871]

In Hungary, this narrative places the culpability for the crisis on 'corrupt communists and liberals' (e.g. MSZP or SZDSZ politicians) or 'greedy bankers', which, in line with the endemic anti-Semitism in the region, is covertly or even openly alluded to as being Jews. They are the local agents of the dominant 'globalo-capitalist world order', which allegedly

---

[869] *Napi Gazdaság*, 'A 100 leggazdagabb magyar', 2010.
[870] For an excellent summary of the dominant narratives of the global crisis in the Anglo-Saxon world, see Noel Castree, 'The 2007-2009 Financial Crisis: Narrating and Politicising a Calamity', *Human Geography*, 2010, Vol. 3, No. 1.
[871] The list of figures is undeniably long, but arguably nobody symbolises the greediness and corruption of bankers better than Bernard Madoff, the highly respected Wall Street investor, who was sentenced for 150 years in prison after having run the biggest 'Ponzi scheme' in world history. The prosecutors claimed losses of US$ 65 billion on behalf of their clients (most of whom were bankrupt by then).

seeks to 'plunder the [Hungarian] nation'.[872] This argument has become popularised by different political forces on the Right and their intellectual acolytes, but it can also be traced in the views of some conservative businessmen.[873] According to the division of labour between different right wing forces, the 'moderate' Right (e.g. FIDESZ) relentlessly reminds the electorate about the blame of successive socialist-liberal governments and their associated business circles in Hungary and abroad, whilst the far-right (e.g. Jobbik) seek to add a dose of anti-Semitism to the narrative.

Seemingly 'simplistic' and 'irrational', it is not difficult to understand the attractiveness of these views when taking into consideration the miserable track record of the ruling socialist-liberal coalition and their associated business partners during their years in power. Aided by a plethora of media outlets, the national-conservative opposition sought relentlessly to remind the Hungarian electorate about the culpability of successive MSZP-SZDSZ governments. In order to succeed, the Hungarian Right has been engaged in a conscious, protracted cultural and ideological battle, what Gramsci defined as a 'war of position', which has seen a drastic shift to the right of the Hungarian media landscape.[874] Ranging from the conservative *Magyar Nemzet*, the most popular daily newspaper in present-day Hungary and closely allied to FIDESZ, through the programmes of *Hír TV,* the country's most popular news channel, to the openly far-right propaganda pumped out by the small media empire owned by Gábor Széles (one of the richest men in Hungary),[875] right-wing ideas permeate much of the Hungarian media landscape.[876]

But the popularity of the 'corrupt politicians and greedy bankers' narrative in Hungarian society is not simply the result of the dominance of the right-wing media. Under Gyurcsány's time in power, MSZP and SZDSZ politicians became increasingly synonymous with corruption.[877] One of the most infamous corruption scandals exploded in the spring of 2008, when the Budapest Police launched an investigation against the

---

[872] László Bogár, *Magyarország felszámolása*, Budapest: Kairosz Kiadó, 2008.
[873] See Bogár, op. cit.; Árpád Kovács, 'Összekeverték a dodzsemet a tankerhajóval', in *Álomcsőd. Interjúk a válságról*, edited by József P. Martin and Iván Várkonyi, Budapest: Alinea Kiadó, 2010, pp. 103-116; or the 2010 electoral manifesto of fascist Jobbik party, *Radical Change: A Guide to Jobbik's Parliemantary Electoral Manifesto For National Self-determination and Social Justice*, Budapest: Jobbik Foreign Affairs Committee.
[874] Gramsci, *Selections from the Prison Notebooks*, pp. 229-239.
[875] Figyelő, 'A Széles birodalom'.
[876] Gáspár M. Tamás, 'Az antifasizmus jövője', *Élet és Irodalom*, Vol. 54, No. 13, 2 April 2010.
[877] Lengyel, *Pretoriánusok kora*, pp. 127-132.

management of the Budapest Public Transport Company (*Budapesti Közlekedési Vállalat*, BKV), on suspicions of embezzlement with public funds. By the summer of 2009, the 'BKV affair' had expanded to cover the payment of generous redundancy payments to high-ranking MSZP and SZDSZ politicians, including the deputy Mayor of Budapest and MSZP politician Miklós Hagyó. As for the credibility of the socialist-liberal government and Prime Minister Gyurcsány, it had been in tatters ever since the latter's infamous gaffe in September 2006, when he, using particularly foul language, admitted that the government had lied about the state of the economy in order to get elected.[878] Support for the socialist-liberal coalition has been evaporating ever since. By the time of the general elections in April 2010, the level of public disillusionment and distrust in the government was so low that the national-conservative opposition could enjoy a comfortable ride back into power.

As for the greediness of bankers, it is enough to invoke the name of former MNB Governor András Simor in order to understand why the 'greedy bankers' narrative easily strikes a chord with many ordinary Hungarian citizens.[879] Simor's monthly salary of roughly US$ 460,000 is not only obscene compared to average Hungarian salaries, but also more than twice as much as that of Federal Reserve Chairman Ben Bernanke.[880] The fact that Simor was awarded the prize of 'Central Banker of the Year in 2010 for Emerging Europe' by *Euromoney*, the global finance journal, only adds insult to injury to those who already feel that the burdens of the crisis have not been shared equally in Hungarian society.[881]

Despite its popular appeal, it is not difficult to pinpoint the analytical shortcomings of the 'corrupt politicians and greedy bankers' narrative. While it is true that shady politicians and self-aggrandizing financiers must take responsibility for their reckless actions, Castree is right to underline that 'abstract[ing] them as a group from the wider political economy

---

878 BBC, 'Excerpts...'.

879 *Bloomberg Business Week*, 'Simor-Orban Battle Means Hungarian Policy Divisions Until 2013', 16 July 2010.

880 Válasz.hu, 'Az amerikai jegybankelnökkel jobban járnánk', 11 June 2010. Available on: http://valasz.hu/itthon/az-amerikai-jegybankelnokkel-jobban-jarnank-30019 (last accessed on: 12 September 2014).

881 Origo.hu, 'Díjat kapott Washingtonban Simor András', 10 October 2010. Available on: http://www.origo.hu/uzletinegyed/hirek/20101010-euromoney-a-felzarkozo-europai-regioban-az-ev-jegybankara-lett-simor.html (last accessed on: 18 January 2014).

[only] serves to obscure a number of important factors [behind the crisis]'[882]. Quoting Castree again, it is also dubitable whether 'greed' is of much use as an explanatory value either, as it implies 'some transhistorical human impulse that threatens to manifest itself in the absence of proper checks.'[883] Nonetheless, the claim that corrupt politicians and greedy financiers were at fault for Hungary's economic malaise has gained a very considerable popular appeal.

Lax Regulatory Oversight

Once economic commentators, politicians and policy experts recovered from their initial shock about the severity of the global crisis, the term 'regulatory failure' became one of their favourite explanations for its cause. The argument here is that lax fiscal or monetary oversight, or a combination of both, by regulators worldwide enabled finance to outgrow the constraints of the real economy. As a 2010 IMF report put it, 'bad policies', 'overly expansionary macroeconomic settings and excessively optimistic views on prudential risks', aggravated the effects of the crisis in CEE.[884]

Here again, there is a mass of evidence for proponents to draw on. Examples of regulatory shortcomings – or in many cases a complete *lack* of regulation – were evident for many years, globally as well as regionally. Governments and various regulatory institutions in CEE were well aware of the dangers of rapid credit growth in their economies, but chose to turn a blind eye to the problem, in order to remain 'competitive' and maintain the illusion of 'economic success' for their electorate. In Hungary, experts and commentators have emphasised the lack of prudence in the banking system (foreign currency denomination of mortgage loans as the prevailing practice, excessive credit-to-deposit ratios, etc.) and a general unpreparedness for turbulence in financial markets (marked by an insufficient level of foreign exchange reserves in the central bank), as evidence of regulatory shortcomings.[885]

---

[882] Castree, 'The 2007-2009 Financial Crisis'.
[883] Ibid.
[884] IMF, 'The Credit Boom...', p. 1.
[885] Andor, 'Hungary in the Financial Crisis...', p. 286. See also György Jaksity, 'Van egy árnyékkormány, úgy hívják, devizaárfolyam', in *Álomcsőd. Interjúk a válságról*, edited by József P. Martin and Iván Várkonyi, Budapest: Alinea Kiadó, 2010, pp. 89-102 and György Surányi, 'Ne dőljünk be a divatoknak!', in Martin and Várkonyi, op. cit., pp. 133-148.

Whilst the 'light touch regulation' narrative has been less attractive than Interpretation 1 in the eyes of the Hungarian public, it is, as Castree points out, 'polyvalent in the political sense'[886]. As such, it enables those who signed up to the fantasy of 'self-regulating' finance a chance to offer touching *mea culpas* in its name. Even the IMF – one of the strongest advocates of financial deregulation in the last two decades – recently offered its own apologies to the region, admitting that 'with the benefit of hindsight, a more active policy response during the boom phase would have helped.'[887] However, to the misfortune of the CEE economies, by the time the IMF realised its mistakes, it was already too late.

For commentators that have maintained a critical stance towards neoliberal 'market fundamentalism', such as Joseph Stiglitz or Paul Krugman, the global economic crisis seemed to offer a rare opportunity to break with the hegemony of neoliberal ideas and provide proposals for how to tackle regulatory shortcomings. Building on the insights of Kenneth Galbraith, John Maynard Keynes, and Hyman Minsky, their proposals included the implementation of a 'new system of financial regulation', which would protect the public interest against the private agendas of profit-maximising banks. Other proposals included the passing of a new 'Glass-Steagall Act'[888], tougher capital adequacy requirements, reform of accounting standards, tighter restrictions on tax havens, greater consumer protection from 'predatory lending', the break-up of 'too-large-to-fail' banks, and the imposition of a 'Tobin tax' on certain cross-border financial transactions.[889] In Hungarian debates, László Andor has been one of the most well-known representatives of these views. According to Andor, the onset of the global financial crisis revealed the weaknesses of the neoliberal economic model. Building on the insights of Keynes, has argued for the need of an alternative economic policies, which would increase state

---

[886] Castree, 'The 2007-2009 Financial Crisis'.

[887] IMF, 'The Credit Boom...', p. 26.

[888] The name given to the 1933 US Banking Act, which imposed limits on commercial bank securities activities and affiliations between commercial banks and securities firms. From the early 1960s, US policymakers began to take measures to 'repeal the Glass-Steagall Act', as it was perceived to limit the ability of US banks to engage in the expanding trade of securities. The act was formally repealed in 1999, when the US Congress passed the 'Gramm-Leach-Bliley Act', which eliminated legal barriers in the market between commercial banks, investment banks, securities firms, and insurance companies. As President Clinton famously noted after having signed the bill, 'the Glass-Steagall Act is no longer appropriate to the economy in which we live'.

[889] See for example Paul Krugman, *End this Depression Now!*, New York, NY: W.W. Norton, 2012 and Joseph Stiglitz, *The Stiglitz Report: Reforming the International Monetary and Financial Systems in the Wake of the Global Crisis*, New York, NY: The New Press, 2010.

economic intervention to promote employment growth, redistribution of income, and the achievement of long-term, 'sustainable development'.[890]

It should, however, be pointed out that criticism of neoliberal policies is not monopolised by progressive forces. Indeed, in what is the contradictory reality of Hungarian post-transformation capitalism, neoliberal critique has increasingly become the home turf of the Right. As we shall see below, it has been Orbán's new national-conservative government, which has taken the most concrete measures towards curbing the power of finance.

Western-style (Neoliberal) Capitalism is to Blame

The third argument has been voiced by those who prefer to trace the roots of the current crisis to the shortcomings of the Anglo-Saxon model of capitalism. The focus lies here on how a 'fundamentalist' belief in the virtues of free market capitalism enabled 'speculative capital' to break free from the boundaries of the nation-state, spurring a frantic race for profit, which ultimately led to the ruin of all.

Again, representatives of this narrative across the world have come in all sorts of political colours. At the onset of the global financial crisis, French President Nicolas Sarkozy famously argued that 'a certain idea of globalization is dying with the end of a financial capitalism', and drew the seemingly straightforward ideological conclusion: 'Self-regulation, to fix all problems, is over. Laissez-fair is over'.[891] The Nobel Prize-winning economist Joseph Stiglitz also arrived at a similar conclusion:

> The world has not been kind to neo-liberalism, that grab-bag of ideas based on the fundamentalist notion that markets are self-correcting, allocate resources efficiently, and serve the public interest well. It was this market fundamentalism that underlay Thatcherism, Reaganomics, and the so-called "Washington Consensus" in favor of privatization, liberalization, and independent central banks focusing single-mindedly on inflation. … Neo-liberal market fundamentalism was always a political doctrine serving certain interests. It was never supported by economic theory. Nor, should it now be clear, is it supported by

[890] Andor, *Eltévedt éllovas*, pp. 208-219.
[891] Sarkozy 2008, here cited in Steven Erlanger, 'Sarkozy stresses global financial overhaul'. *New York Times*, 26 September 2008, p. C9.

historical experience. Learning this lesson may be the silver lining in the cloud now hanging over the global economy.[892]

Narrative 3 thus argues the current crisis did not represent the bursting of yet another credit bubble, but indeed symbolised a 'theological crisis for the neoliberal belief system'.[893] This argument was neatly summarised by the renowned globalisation critic Naomi Klein. In a speech at the University of Chicago, she argued that the financial crisis sweeping Wall Street,

> should be for Friedmanism what the fall of the Berlin Wall was for authoritarian communism: an indictment of ideology. It cannot simply be written off as corruption or greed, because what we have been living, since Reagan, is a policy of liberating the forces of greed to discard the idea of the government as regulator, of protecting citizens and consumers from the detrimental impact of greed, ideas that, of course, gained great currency after the market crash of 1929, but that really what we have been living is a liberation movement, indeed the most successful liberation movement of our time, which is the movement by capital to liberate itself from all constraints on its accumulation.[894]

Similar sentiments have also been echoed in Hungary. One of the most renowned representatives of this view on the Left is the Hungarian-born American sociologist Iván Szelényi. In 2008, when the global economic crisis was still in its infancy, he passed a harsh judgement on neoliberalism and its apologists in Hungary and elsewhere in CEE:

> Now that the crisis of global finance capitalism shakes the world in its very foundations, when we experience an economic collapse of a magnitude not experienced since 1929-1933 (a collapse that affects Hungary and in fact the entire European post-Communist region especially severely), the wisdom of the neoliberal path chosen by the post-Communist countries in 1989-90 appears highly dubious. Today, the ball got rolling from the United States, but it appears that it may trigger the greatest avalanche in this very region. Neoliberalism is in crisis in America as well, but it seems that post-Communist capitalism, which was more neoliberal than the neoliberals themselves, will have to pay twice the price for its … erroneous economic and social policy.[895]

---

[892] Stiglitz, 'The End of Neo-Liberalism?'.
[893] Peck et al., 'Postneoliberalism and its Malcontents', p. 99.
[894] Klein, 'Wall Street Crisis Should be for Neoliberalism…'.
[895] Szelényi 2008, here cited in Andor, 'Hungary in the Financial Crisis...', pp. 294-295.

Szelényi warned against premature claims about the 'end of capitalism', but argued for a 'qualitative revolution' that moves beyond the neoliberal model of capitalism based on economic growth through mass consumption, towards a model encouraging 'less consumption of goods with better quality'. For this vision to materialise, Szelényi acknowledged the need for stronger regulation by the state.[896]

Yet, proselytising about the demise of laissez-faire capitalism and the return of the state has not been restricted to left-wing intellectuals. Indeed, one of the most vocal critics of Anglo-Saxon capitalism in Hungary has been none other than the current leader of the country's national-conservative government, Prime Minister Orbán. In a speech delivered in July 2010, he spoke of the 'crisis of Western capitalism' (read: neoliberalism) caused by 'the dominance of speculative capitalism over productive capitalism in recent decades'. Equating the current crisis to a 'crisis of Western civilisation', the logical conclusion of this argument is that there is a need for a rediscovery of (Christian) 'moral values', accompanied by the return of the state in economic affairs.[897] As we shall see in section 4, since coming back into power in 2010, the new FIDESZ-led government wasted little time in putting Orbán's words into action.

Macro-economic Imbalances are to Blame

The fourth narrative seeks to move beyond the narrow scope of previous three interpretations. On a global level, this means placing the global crisis within a wider economic context. As Castree suggests, this involves folding 'interpretations two and three together and show[ing] them to be … elements of a much larger story.'[898]

Narrative 4 presupposes that the reasons why Hungary and other CEE economies were badly hit by the crisis cannot be reduced to single factors alone, but are the result of a combination of complex factors. According to Philippe Le Houerou, World Bank Vice President for Emerging Europe and Central Asia (ECA), the region's vulnerability to the crisis was due to a combination of factors, including large current account deficits, high

[896] Szelényi, 'A globális pénzügyi válság és Közép Európa nyomorúsága'. For similar proposals, see Andor, *Eltévedt éllovas* and András Vigvári, 'Néhány adalék Magyarország külgazdasági sebezhetőségének okaihoz', *Eszmélet*, 2008, Vol. 20, No. 80.
[897] Orbán, 'A nyugati tipusú kapitalizmus került válságba'.
[898] Castree, 'The 2007-2009 Financial Crisis'.

levels of external debt, rapid credit growth and a consumption boom financed by foreign currency borrowing.[899] Irrespective of political convictions, there is a general consensus among proponents of Interpretation 4 that these factors were, to a greater or lesser extent, all present in Hungary prior to the current crisis. Differences arise, however, regarding the causes that enabled these factors to develop.

The proponents of neoliberal orthodoxy trace the reasons for Hungary's vulnerability the global economic crisis to one or more of the following factors:

- Doubts about the government's fiscal policy (whether the government would be able to stick to its deficit reduction targets after years of though austerity);
- Lack of 'competitiveness' *vis à vis* similar economies in the region and globally due to the failure of successive governments, on both sides of the political spectrum, to implement necessary 'structural reforms' in the economy; and (as a result)
- The failure to switch to a new path of (sustainable) economic growth.

In Hungary, former Minister of Finance László Békesi has been one of the most vocal representatives of these 'Market Maoists'[900]. In a long article published on the eve of the 2010 general elections in the liberal Hungarian weekly paper *Élet és Irodalom*, Békesi argued that Hungary's economic problems were due to 'erroneous' government policies between 2001-2006, combined with the negative structural characteristics of the Hungarian economy.[901] Instead of following policies of 'sustainable growth' (e.g. increasing exports and investments, while furthering household savings and fiscal stability), Békesi maintained that successive governments in Budapest led the economy onto a path of 'artificial growth' by pursuing 'voluntarist' measures, which sought to increase domestic consumption through credit-based state spending and wage increases in excess of productivity growth. This lead to a 'dramatic increase in public debt and seriously undermined the economy's competitiveness.' In addition, structural imbalances, with the Hungarian economy being 'dominated by sectors that are sensitive to conjuctural changes'

[899] World Bank, 'Overview'. See also Richard Connolly, The Determinants of the Economic Crisis in Post-Socialist Europe', *Europe-Asia Studies*, 2012, Vol. 64, No. 1, pp. 35-67.
[900] The term was originally coined by Andor and Summers (in *Market Failure*…) to describe the architects of neoliberal policies in CEE, whose blind fate in the blessings of the market could be likened to the utopianism that characterised the economic programme of China's cultural revolution in the 1960s and 1970s. The only difference was that, this time, the 'Great Leap Forward' was to be into capitalism and not communism. In addition to Békesi, other notorious 'Market Maoists' in Hungary include Lajos Bokros and László Lengyel. See Bokros, 'A reformok kritikus tömege, I-II' and Lengyel, *Pretoriánusok kora*.
[901] Quotes in the two following paragraphs are from Békesi, 'A magyar gazdaság...'.

(e.g. car production, construction, commerce, electronics, and the tourism and services industry), which are usually severely affected by downturns in global demand, placed further strains on the country during the global crisis.

Although we might concur with parts of Békesi's diagnosis, his solutions sound less appealing. For Békesi and his neoliberal *confrères*, the panacea to Hungary's economic ills lies in *more*, not less, neoliberalisation. As he made it clear, 'There should only be as much planning as is absolutely necessary, whilst as much market as is absolutely possible.' In order to achieve this, labour must, of course, be brought to its knees. Wage increases should therefore be tied to increases in productivity and the government should stimulate exports whilst maintaining a stringent stance in fiscal policy. Hence, the overall goal of economic policy in Hungary, 'should not be the optimisation of distribution … but increasing competitiveness'.[902] This programme resonates with the opinions of the more transnationally-oriented sections of Hungarian capital and can also be traced to the policy proposals of international bureaucratic organisations, such as the IMF, World Bank, and the EU.[903] However, as the 2010 general elections revealed, it is highly unpopular with the Hungarian electorate.

In its progressive version, Interpretation 4 places the Hungarian economy within a wider context, emphasising the macro-economic, geopolitical, and historical dimensions of its economic problems. Andor, for example, argues that the Hungarian crisis cannot be viewed in isolation from the increasing interdependence amongst the EU's member states. Looking at the banking system of CEE, he notes that it is largely foreign owned (predominantly by Austrian, Italian, French, German and Swedish banks), which means that 'a financial crisis in this region cannot be isolated from the rest of the EU.'[904] Others, such as the Oxford-based Hungarian economist Péter Róna, have traced the problems of the Hungarian economy to its continuously high levels of underemployment. According to Róna, chronic underemployment is due to the lack of competitiveness of Hungarian corporations *vis à vis* the subsidiaries of transnational corporations. The lack of

---

[902] (On this point, there is no marked difference between the main political parties in Hungary. The disagreement is about *how* this should be achieved (whether the government should remain open to foreign capital in order to encourage export-led growth, as argued by MSZP and SZDSZ, or whether priority should be switched, as argued by FIDESZ, towards the internal market and the strengthening of 'national' capital).
[903] See for example Gordon Bajnai, 'Az ország sokat tanult ebből a válságból', in Martin and Várkonyi, *Álomcsőd*, pp. 11-26.
[904] Andor, 'Hungary in the Financial Crisis...', p. 291.

competitiveness of Hungarian firms, Róna argues, is ultimately due to a combination of bad monetary policies of the Hungarian central bank and the government's lack of development strategies.[905]

Ultimately, however, progressive commentators are left in an awkward situation: as they (justly) seek to defend the badly wounded welfare state from further neoliberal attacks, they become spellbound by the institutions which they protect, seeing in them the key agent of progressive change. Hence, it ends up following Narrative 3, calling for a more active state in economic affairs. But while shoring up the beleaguered welfare state is a noble cause to fight for, the problem with this view is that their solutions to the crisis remain within the framework of the existing system.

To its credit, Interpretation 4 provides a much-needed macro-economic, geopolitical and historical dimension, which manages to highlight how global imbalances affect the Hungarian economy. However, in the end, the technical and abstract language of this interpretation means that it lacks the popular resonance of Interpretation 1 and 3. Therefore, as Castree points out, it is 'operative only among those versed in the technicalities of the global political economy'[906] – the type of people who read the *Financial Times* (or comparable business papers in Hungary, such as *Heti Világgazdaság*), IMF or World Bank reports or in books or academic essays on the global political economy.

Towards an Alternative Account of the Crisis in Hungary …

The current global economic crisis has highlighted the contradictory dynamics of capitalist development. As we have seen above, the effects of the crisis on individual economies and different regions have been variegated. The above outlined narratives all highlight interesting *aspects* behind Hungary's vulnerability to the global crisis, however, none of them seem to provide a satisfactory account of how its recent economic malaise is

[905] Péter Róna, 'Monetáris maszlag', *Népszava*, 29 June 2009.
[906] Castree, 'The 2007-2009 Financial Crisis'.

interlinked with the dynamics of the global economy. What they arguably lack is a sense of *totality.*

There is a body of Marxist literature upon which a much more critical stance towards the negative effects of the global economic crisis on CEE economies can be constructed. At the heart of these analyses is an assumption that central concepts of Marxist political economy, such as ‘class’, ‘law of value’ and ‘competition’ should lie at the heart of an analysis of capitalism.[907] The essence of such an approach is that the contradictory development of post-transformation economies cannot be understood *sui generis*, but needs to be considered *in relation* to the contradictory dynamics of the global economy and the international state system. In this section we seek to complement these insights by drawing on the notion of ‘uneven and combined development’, as developed originally by Leon Trotsky and in which there has recently been renewed interest.[908]

This interpretation links Hungarian events to the complexities and contradictions of the global economy and the international state system. Conceiving of capitalist development as a dynamic process, which results from the interaction between economic change and political and social forces, the notion of uneven and combined development offers a framework upon which a non-deterministic account of the impact of the global crisis on Hungary and other political economies in CEE can be constructed. This narrative emphasises the importance of local conditions (historical and institutional dimensions and the role of the state) as crucial to the variegated ways these countries have been reinserted into the global economy. To paraphrase Brenner et al., the expansion of the logic of capital is always embedded within and reworks existing institutional landscapes through processes

---

[907] For Marxist interpretations of the transformation in CEE, see for example Hardy, *Poland’s New Capitalism*; Szalai, *New Capitalism...* and ’A rendszerváltástól a rendszerválságig’; Tamás, ‘Counter-revolution against a counter-revolution’ and *id*. ‘A capitalism pure and simple’, 2008, *Left Curve*, No. 32, pp. 66-75.

[908] Leon Trotsky, *The History of the Russian Revolution* and *id. The Permanent Revolution* and *Results and Prospects*, London: Socialist Resistance Publishers, [1930 and 1906]/2007. For more recent debates on the relevance of combined and uneven development, see Jamie C. Allinson and Alex Anievas, ‘The Uses and Misuses of Uneven and Combined Development: an Anatomy of a Concept’, *Cambridge Review of International Affairs*, 2009, Vol. 22. No. 1, pp. 47-67; Alex Callinicos, ‘Does Capitalism Need the State System?’, *Cambridge Review of International Affairs*, 2007, Vol. 20, No. 4, pp. 533-549; Bill Dunn and Hugo Radice (eds.), *100 Years of Permanent Revolution: Results and Prospects,* London: Pluto Press, 2006; Marcel van der Linden, ‘‘The “Law” of Uneven and Combined Development: Some Underdeveloped Thoughts’, *Historical Materialism*, 2007, Vol. 15, No. 1, pp. 145-165; Justin Rosenberg, ‘Globalization Theory: A Post Mortem’, *International Politics*, 2005, Vol. 42, No. 1, pp. 2-74; Justin Rosenberg and Alex Callinicos, ‘Uneven and Combined Development: the Social-relational Substratum of “the International”?: An Exchange of Letters’, *Cambridge Review of International Affairs*, 2008, Vol. 21, No. 1, pp. 77-112.

of capital accumulation.[909] Hence, while capital, to quote Marx and Engels, *seeks* to 'create a world after its own image'[910], it does not represent a homogenizing process, but leads to variations across time and space.

Capitalism as Uneven and Combined Development

Common to Marx and Trotsky's understanding of capitalism was the idea that it had to be understood as a 'totality', which unifies the world into a single interactive productive system under the dominance of capital. The *modus operandi* of this system is the 'law of value'. As Hardy points out, this law has two aspects. On the one hand, competition means that 'all producers have to produce with the minimum input of labour time', while on the other, 'it forces a tendency towards a normal rate of profit in all industries.'[911] As capitalism expands across the world, aspects of uneven and combined development become visible between different societies. As Harman describes:

> The capitalist exploitation of labour dissolves all pre-existing social forms, transmuting them into elements of a single capitalist world. Every tangible object is continually being reduced to a simple expression of a single, unitary substance – abstract labour. Every element of unevenness is continually being combined with every other element of unevenness to provide the totality which is the world market.[912]

Here we can discern how the theory of uneven and combined development can be connected to Marx's concept of the law of value, a point recently explored in a stimulating essay by Colin Barker.[913] His argument is based on the notion that under capitalism, 'Expanding productivity, creates a rapidly growing flow of commodities whose value must urgently be realised', which forces capital to move beyond its national boundaries.[914] The competition resulting from this process 'translates into "international" pressure on the nations and industries of the entire world.'[915] As Barker points out, once a world market built on the logic of capital accumulation has developed, the law of value imposes itself on

---

[909] Neil Brenner, Jamie Peck, Nick Theodore, 'Variegated Neoliberalization: Geographies, Modalities, Pathways', *Global Networks*, 2010, Vol. 10, No. 2, pp. 182-222.
[910] Karl Marx and Friedrich Engels, *The Communist Manifesto*, Oxford: Oxford University Press, [1848]/1992, p. 7.
[911] Hardy, *Poland's New Capitalism*, pp. 37-38.
[912] Chris Harman, 'Philosophy and revolution', *International Socialism*, 1983, No. 21, p. 75.
[913] Colin Barker, 'Beyond Trotsky: Extending Combined and Uneven Development', in Dunn and Radice, *100 Years of Permanent Revolution*, pp. 72-87.
[914] Ibid., p. 80.
[915] Ibid.

those subject to its power with brutal ferocity, generating uneven and combined development in the process:

> The law of value, this modern expression of [uneven and combined development], is not merely a "description of regularities" but a *prescriptive command*, more … powerful in its real effects on behaviour than any edict or fatwa. It subordinates not only workers and employers, but the mightiest governments. Yet its forces derive, not from any powerful deliberative agency, but from the impersonal workings of the capitalist form of combined development.[916]

Here we can trace the foundations of a crucial corollary feature of the law of value; what Marx described as the 'tendency of the rate of profit to decline'. Barker argues that this concept seems to offer a 'a neat dialectic' with the theory of uneven and combined development, as it illustrates how 'one process, accumulation, engenders through its very logic its opposite, devaluation.'[917] This is the case, according to Barker, since the 'interaction of capitals, through the circuit of production and circulation', is in itself based on relations between 'unevenly advantaged capitals', which leads to incongruities in the investment of new production, and hence tends 'to cheapen commodities at the point of sale.[918] Consequently, capitalists that are first to develop new production techniques, and in the process manage to bring down the value of associated commodities, deliver 'a nasty shock' to those who – for one reason or another – have remained with their old production methods.[919] Left with outdated methods of production, these capitalists find – when they bring their products to the market – that the general price has decreased and their output of commodities (e.g. their capital) has diminished.[920]

In many ways, this contradiction epitomises the paradoxical outcomes of the neoliberal transformation of Hungary and other ex-Soviet bloc economies, which on the one hand saw these economies being incorporated into the circuits of global capital, while on the other hand perpetuating uneven development both *within* these countries, as well as *between* them and the more advanced economies of the capitalist core. It is to the central features of this process that we now turn our attention.

---

916 Barker, 'Beyond Trotsky', p. 81.
917 Ibid.
918 Ibid.
919 Ibid.
920 Ibid.

The Current Crisis as a Crisis in Neoliberalism with Hungarian Characteristics

As we argued in the previous chapter, one of the key features of the neoliberal regime of accumulation that developed in Hungary after 1989 was the dominance of foreign capital of key sectors of the economy (with the notable exception of Slovenia, this was the case in other CEE economies as well). In the case of Hungary, we argued that the influx of foreign capital contributed to 'uneven and combined development'. On the upside, it contributed to the arrival of multinational enterprises, which introduced new technologies and manufacturing activities, such as computing or car production, while the proportion of low-technology industries declined significantly.[921] Foreign capital also contributed to a rapid shift in the direction of Hungary's trade. Between 1989 and 1991 the share of Hungarian exports going to Soviet bloc markets decreased from 41 percent in 1989 to 19 percent, while the share of total exports going to OECD countries rose to 70 percent.[922] Since then, these tendencies have become entrenched. As a result, the structure of the Hungarian economy became similar to those prescribed in neoclassical textbooks. Hence, for the adherents of neoliberal orthodoxy, Hungary represented a 'success story' of neoliberal transformation in the region. However, as Phaedrus, the Roman fabulist famously proclaimed, 'Things are not always what they seem to be, and the first appearance deceives many.' Similarly, Hungary's reintegration with the global economy and growing resemblance in overall macroeconomic structure with advanced economies does not reveal some of the structural imbalances that have remained intact twenty years after Hungary's formal transition to the market.

The drawbacks of the Hungarian political economy's dependence on foreign capital and export-led growth are visible in the overall structure of the economy: key sectors of the economy are controlled by foreign capital, while the internal market is very weak. This is notoriously the case of the banking sector, where the share of foreign banks in total banking assets was 82.9 percent in 2006, higher than Poland (74.3 percent) and Latvia (62.9 percent) and significantly higher than Slovenia (29.5 percent.[923] While foreign capital holds a monopoly position in many parts of the Hungarian economy, the problems

[921] Gács, 'Structural change and catching up', p. 143; Szalavetz, *Structural change – structural competitiveness*, p. 6.
[922] Jeffries, *Socialist economies and the transition to the market*, p. 428.
[923] Marica Frangakis, 'Europe's Financial Systems under Pressure', in *Global Finance and Social Europe*, edited by John Grahl, Cheltenham: Edward Elgar, 2009, p. 72.

that stem from this are aggravated by, what Szalai describes as, the 'monocultural character' of foreign capital, in the sense that the activities of multinational corporations are primarily geared towards the needs of Western European markets (in particular Germany, which is Hungary's most important trade partner).[924] According to estimates by Loránt, the profit extracted by MNCs from the Hungarian economy amounts to 6-7 percent of total GDP.[925] As a further drawback, Pitti draws attention to the fact that MNCs focus, to a very large extent, on assembly-like activities that are generally easily replicable, rely on low-skilled labour and can (if necessary) be shifted abroad with a penstroke.[926]

At the same time, Hungary's reintegration with the global economy has come at a high social cost. Throughout the region, economic restructuring led to a 'post-transition recession', whose magnitude and duration even the World Bank admitted to was 'comparable to that of developed countries during the Great Depression, and for most of them it was much worse'.[927] Economic output in Hungary only returned to its 1989 level in 1999, but by then ordinary Hungarians had paid a heavy burden for the slump.[928] In 1996, real wages and pensions were 24 respectively 30 percent below their 1989 levels.[929] Economic recession also resulted in rising income inequalities. The income of the highest 10 percent of the population towards the final days of the Kádár regime was estimated around 4-5 times higher than the lowest one-tenth of the population. By 2003 the figure had risen to 8.4.[930] In concrete terms, this translates into staggering differences in wealth: while the poorest 1 million Hungarians control a mere 3 percent, the richest 1 million own 25-26 percent of national wealth.[931]

With hindsight, the outcomes of Hungary's politico-economic transformation thus appear highly uneven. The country has been integrated into the global economy as a semi-peripheral player, with all the economic, political and social drawbacks that this entails. As the current crisis has revealed, this is a dangerous position to be in.

---

[924] Szalai, 'A rendszerváltástól a rendszerválságig'.
[925] Loránt, 'Magyarország eladósódásával...'.
[926] Zoltán Pitti, 'Európai felzárkózás és/vagy versenyképességünk javítása', lecture at the annual meeting of the Association of Hungarian Economists (*Magyar Közgazdasági Tanács*, MKT), 19 November 2002.
[927] World Bank, *Transition – The First Ten Years*, p. 2.
[928] Eurequal, *The State of Inequality*, p. 2.
[929] Stark 2009, pp. 155-161, here cited in Romsics, 'Mérlegen a magyar XX. század'.
[930] TÁRKI, *Hungary: Social Report 2004*, p. 51.
[931] Romsics, op. cit..

Political Responses to the Crisis: Contextualising the Ascendancy of the Orbán Regime

So, how have policymakers sought to respond to the unfolding crisis? When the crisis broke, Keynesian deficit spending was 'rediscovered' in the United States, China, and (to a lesser degree) in Europe. In the United States, the Bush Jr. administration introduced the 2008 'Emergency Economic Stabilization Act' (also known as the 'Paulson Plan') in order to bailout the US financial system. This was followed in February 2009, by the 'American Recovery and Reinvestment Act', introduced by the recently installed Democratic President Obama, which provided an estimated US$ 787 billion fiscal stimulus package to the US economy through a combination of tax breaks and government spending on infrastructure, welfare and education programs. Simultaneously, the US Federal Reserve has engaged in successive rounds of 'quantitative easing'[932] – effectively meaning the printing of money and pumping it into the financial system, in order to stimulate the economy. Similarly, Chinese leaders reacted early to the crisis, launching a massive stimulus package of RMB¥ 4 trillion (US$ 586 billion) in November 2008, in order to maintain the impressive growth rates that have contributed to the spectacular rise of the Chinese economy in the last three decades.[933] However, rather than alleviating the contradictions of 'neoliberalism with Chinese characteristics',[934] it has in many ways intensified the contradictions of its economic model.[935] In contrast to the measures adopted by the US and China, which were able to lessen the immediate effects of the crisis, the measures adopted by the EU have led to a further economic deterioration, resulting in what is now commonly referred to as the 'Eurozone crisis'. The crisis has laid bare the contradictions inherent in the EU, which has been exacerbated by uneven and combined development and increasing inter-state rivalry.[936] Although the European Commission announced the introduction of a € 200 billion stimulus package in November 2008, it was not only significantly *smaller* than similar packages introduced by the US and China, but also represented a combination of national programmes adopted by single EU states *in*

---

[932] Robin Harding, 'Quantitative easing explained', *Financial Times*, 3 November 2010.
[933] As Hardy and Budd point out, this effectively represented 'the largest economic stimulus package in history, equivalent to 14 percent of gross domestic product (GDP).' Cited in Jane Hardy and Adrian Budd, 'China's Capitalism and the Crisis', *International Socialism*, 2012, No. 133.
[934] Harvey, *A Brief History of Neoliberalism*, p. 120-151.
[935] Ho-Fung Hung, 'America's Head Servant? The PRC's Dilemma in the Global Crisis', *New Left Review*, 2009, Vol. 2, No. 60.
[936] RMF, *The Eurozone Crisis*....

competition with each other.[937] As Marx famously put it in Volume 3 of *Capital*, the reaction of European states to the crisis has been akin to that of a band of 'enemy brothers'.[938] Importantly, while Keynesian fiscal stimuli have been relatively important in the US and China, it has been highly contested by powerful states within the EU (in particular the conservative governments of Germany and the UK).[939] Instead, government intervention has primarily focused on bailing out the financial sector. As Becker and Jäger point out, 'This corresponds with the interests of particular capitalist groups within the financial sector but also with parts of the upper middle classes. Moreover, this is compatible with the export oriented fractions of capital in the neo-mercantilist countries [such as Germany] which hope that the measures will revive the economy and their exports.'[940] These measures, however, have resulted in further drops in economic output, employment, consumption and government revenues, while failing to reduce public debt and interest rates. As a result, of these measures developments in some countries, in particular Greece, are comparable to the Great Depression and leading to political and social tensions that might end up not only in the collapse of the Eurozone, but also the breakup of the EU.

If 'mild anti-cyclical policies' have been limited in the advanced capitalist states of Western Europe, they were (with the notable exception of the Czech Republic and Slovakia) a rarity in CEE.[941] On the one hand, this epitomises the (semi-)peripheral position of the region within Europe and the wider global economy. On the other hand, however, it reflects the ideological dominance role of neoliberal orthodoxy among ruling elites in the region.[942] Thus, in Hungary, the semi-technocratic government of Gordon Bajnai, introduced harsh neoliberal austerity measures in 2009, in the hope that it would help 'rebalance' the Hungarian economy and enable the country to regain its 'credibility' among foreign investors. The new measures included: a two-year pay freeze for workers in the public sector, an increase in the value-added tax rate from 20 to 25 percent (except for

---

[937] Becker and Jäger, 'Development Trajectories in the Crisis in Europe', pp. 16-21.
[938] Marx, *Capital, Volume 3*, p. 362.
[939] In 2009, the German conservative government of Chancellor Angela Merkel decided to introduce a so-called 'debt brake' [*Schuldenbremse*] in the constitution, which aims to limit the debt (adjusted for the business cycle) of the federal government to 35 percent of GDP by 2016, from its current level of more than 80 percent. In December 2011, Chancellor Merkel and French President Nikolas Sarkozy agreed to extend the 'debt brake' to all Eurozone countries, in the hope that it will help prevent a recurrence of the Eurozone crisis. See *The Economist*, 'Germany's debt brake: Tie your hands, please', 11 December 2011.
[940] Becker and Jäger, op. cit., p. 18,
[941] Ibid., pp. 19-21.
[942] Gáspár M. Tamás, 'Szürkület', *Élet és Irodalom*, Vol. 52, No. 45, 7 November 2008.

a number of basic consumer goods, such as bread and dairy products), the introduction of a tax on real estate, and the elimination of a number of welfare provisions, such as the 13th monthly pension and salary, a decrease in maternity leave from three years to two, and a reduction in state compensation for residential heating.[943] These measures broadly coincided with the recommendations of the neoliberal Reform Union (*Reformszövetség*)[944] and the US management firm McKinsey, and were, at the time, backed by the centre-left parties in parliament, broad sections of the Hungarian capitalist class, the media, as well as international commentators and financial institutions.[945]

Although the austerity measures introduced by the Gyurcsány and Bajnai governments managed to improve the budget deficit and the current account balance, they came at a high social cost and led to increasing public anger and disillusion with free market capitalism and democratic institutions. A comparative survey, carried out in 2009 by the Pew Research Center, captured the level of public disillusion and anger amongst ordinary Hungarians.[946] According to the survey, a stunning 94 percent of those interviewed in Hungary regarded the economic situation in the country as 'bad', while 72 percent said they were 'worse off now than under Communism'. These figures were significantly higher than those of many neighbouring countries, such as the Czech Republic, Poland, and Slovakia.[947] Moreover, the survey also revealed that Hungarians were not only disillusioned with the economy, but with politics too: 77 percent of Hungarians were 'dissatisfied' with the way democracy was working in their country, compared to 49 percent of the respondents in the Czech Republic, 46 percent in Slovakia, and only 39 percent in Poland.[948] The study also showed an increasing opposition to EU membership in Hungary, with only 20 percent agreeing that EU membership was 'a good thing', while 43 percent were neither in favour, nor against, but almost two-third (28 percent) responded that it was 'a bad thing'. Hungarians were significantly more pessimistic towards the EU

---

943 Lengyel, *Pretoriánusok kora*, p. 78-88; Pogátsa, 'Hungary: From Star Transition Student', p. 608.

944 The Reform Union was founded in November 2008 in order to promote the formation and realisation of economic and social reforms in Hungary. Its members included the main interest groups of Hungarian business, renowned scientists, and influential neoliberal economists, such as László Békesi, Attila Chikán, and Péter Oszkó (as we noted in the previous chapter, the former two had served in high-ranking government positions in the 1990s, while the latter became Minister of Finance in the Bajnai government). The organisation terminated itself on 1 April 2009, after it considered to have reached its initial objectives.

945 Lengyel, *Pretoriánusok kora*, p. 78. See also *Heti Világgazdaság*, 'Kész a Reformszövetség programja: 1-2 ezer milliárdos adócsökkentés', 11 February 2009.

946 Pew Research Center, *Two Decades After the Wall's Fall: End of Communism Cheered but Now with More Reservations*, Washingtond, DC: The Pew Research Center, 2009.

947 Ibid., pp. 3, 40

948 Ibid., p. 32.

than most of their neighbours in the region, with 63 percent in Poland, 58 percent in Slovakia, and 45 percent in the Czech Republic holding a positive view.[949] In conjunction with this, support for the ruling MSZP and their long-time coalition partner, the (neo)liberal SZDSZ was reaching record-low levels.[950]

Figures like these arguably indicate that Hungary's impasse was (again) extending beyond a 'conjunctural crisis' (e.g. the 'normal' downturn of a capitalist business cycle), to what Gramsci described as a 'crisis of authority', or an 'organic crisis'. Confronted with such a situation, the political system seeks to free itself from representative structures and the rules of parliamentary democracy. Gramsci spoke of 'Caesarism' or 'Bonapartism', in which 'a great historical personality is entrusted with the task of "arbitration" over a historico-political situation characterised by an equilibrium of forces heading towards catastrophe', as potential solutions to the crisis.[951] As Gramsci noted, Ceasarism or Bonapartism can take both progressive and reactionary forms: Ceasar and Napoleon I were examples of 'progressive Ceasarism', while Louis Bonaparte (Napoleon III) and Bismarck personified 'reactionary Ceasarism'.[952] However, 'Ceasarist' or 'Bonapartist' solutions can also prevail in a parliamentary democracy, where they usually take the form of 'grand coalitions', which directly connect the economic and sectoral interests of the ruling classes with fractions of the political elite. In comparison with the Bonapartist phenomenon, which was personalised and confined to the 19th century, these solutions offer greater flexibility in constructing a power bloc that bypasses, or significantly alters, representative arbitration and electoral legitimacy, without breaking explicitly with the existing parliamentary framework.[953]

In our view, it is within this context that the return to power of the national-conservative FIDESZ party, headed by Viktor Orbán, needs to be situated. As we noted above, support for the socialist-liberal coalition had been evaporating ever since 2006, when the Gyurcsány government backtracked on its electoral manifesto of 'reform *sans* austerity'

---

[949] Pew Research Center, *Two Decades After the Wall's Fall*, p. 67.
[950] According to one opinion poll, carried out by *Medián* in March 2009 (one year prior to the general elections), support for the MSZP was at record-low 16 percent (the lowest in ten years), while support for the (neo)liberal SZDSZ was below the 5 percent threshold for entering parliament. See Medián, 'Van még lejjebb?', 18 March 2009; *Népszabadság*, 'Rossz az irány – mondja a magyarok 91 százaléka!', 18 March 2009.
[951] Gramsci, *Selections from the Prison Notebooks*, p. 219.
[952] Ibid., p. 219.
[953] Ibid., pp. 210-223, 275-276.

and instead went ahead with the introduction of a neoliberal austerity programme. Hugely unpopular with the electorate following the revelation of his (in)famous ‘lie speech’ in September 2006, Gyurcsány finally stepped aside in March 2009, when it became clear that he lacked support with the MSZP for further neoliberal reforms. However, instead of calling for early elections – a move that was advocated by the President of Hungary László Sólyom –, the MSZP decided to form a caretaker government of non-elected ‘experts’. Initially, the MSZP initially asked the former Governor of the MNB, György Surányi, to form a technocratic government, but he declined due to a lack of support from FIDESZ, the main opposition party.[954] In the midst of all the confusion, the MSZP eventually turned to the young, but uncharismatic Gordon Bajnai, a former Minister of National Development and Economy and ex-business partner to Gyurcsány, who took charge of a semi-technocratic government in mid-April 2009. In order to ‘regain the trust’ of international financial markets and foreign investors, Bajnai introduced further neoliberal reforms. However, while these measures managed to the steer the country away from the risk of immediate economic collapse, they did not ‘stop the rot’ of the MSZP and the SZDSZ.

The collapse of the socialist-liberal vote was confirmed in the 2010 general elections, which saw the share of the MSZP vote falling by more than 23 percent compared to the 2006 general elections (from 43.2 to 19.3 percent), while the (neo)liberal SZDSZ failed to get into parliament altogether (as did the other main party of the transition, the conservative MDF, led by Lajos Bokros). Instead, the main winner was the political Right, with the national-conservative FIDESZ-KDNP ‘coalition’,[955] led by Viktor Orbán, obtaining 52.7 percent of the votes and a two-thirds supermajority in parliament, while the far-right Jobbik party became the third largest party in parliament with 16.7 percent of the vote and 46 MPs.[956] The result of the local elections in the autumn of 2010 confirmed that FIDESZ had consolidated its power in Hungarian politics and that it had virtually no political opposition to speak of.[957]

[954] Lengyel, *Pretoriánusok kora*, p. 47.
[955] Although officially a coalition between FIDESZ and the KDNP, the latter is in reality the satellite party of Fidesz, and has not been able to get into parliament since 1994, when it just about passed the 5 percent electoral threshold (it obtained 7 percent in the 1994 general elections).
[956] Korkut, *Liberalization Challenges in Hungary*, pp. 161-162.
[957] Following the local elections, FIDESZ controlled a whopping 93 percent of all local governments in Hungary.

According to Orbán, the victory of FIDESZ constituted a 'revolution at the ballot box' and the overthrow of 'the old system of corrupt oligarchs' and its replacement with a new system: 'the system of national cooperation'.[958] Since coming into power the new FIDESZ-led government has thus sought to carry out a root-and-branch transformation of Hungarian society through the means of 'work', 'law and order', and 'family', in order to overcome the failures of the transformation (in particular the last eight years of socialist-liberal rule).[959] In the sphere of the economy, this has meant an expansion of the agenda of 'neoliberal populism', which was pursued by the first Orbán government between 1998-2002 (described in detail in the previous chapter). As part of its wider aim of restoring the 'competitiveness' of the Hungarian economy and to entice some of the long-term unemployed back into work, the new government seeks to create a new, 'work-based' economy based on a strong, property-owning middle class. As set out in a number of ambitious plans and programmes, such as the *Széchényi Plan II*[960] and the *Széll Kálmán Plan I and II*,[961] this is to be achieved through the provision of state subsidies to Hungarian firms (especially small- and medium sized enterprises in agriculture, car manufacturing, construction, food processing, and the tourism industry), the introduction of a highly regressive 16 percent flat tax rate,[962] the elimination of corruption and unnecessary red tape leading to market distortions, along with strict adherence to a balanced budget. These measures have been accompanied by a reformation of the welfare system that includes the introduction of a highly regressive, new workfare programme, which obliges the unemployed to accept job offers from the local government or, in the case that no work is available, try to survive on a replacement allowance that is below the minimal salary.

[958] Viktor Orbán, 'Forradalom történt a szavazófülkékben', speech at Vörösmarty Square, Budapest, Hungary, 25 April 2010.
[959] GoH, *A Nemzeti Együttműködés Programja*, Budapest: Government of Hungary, 22 May 2010.
[960] The new Széchényi Plan was launched by the Orbán government in Januay 2011. It represents essentially an updated version of the original Széchényi Plan, introduced by the first Orbán government in 2001.
[961] The plans, which are named after conservative politician and Prime Minister (1899-1903) Kálmán Széll, seek to outline a programme of 'structural reform' with the aim of reducing the public dept and foster economic growth. The first plan was revealed in March 2011, while an updated version was presented in April 2012 and later accepted by parliament.
[962] According to a recent study by Tóth and Virovácz (2013), two economists connected to the conservative *Századvég* foundation (the latter is a researcher at the foundation, while the former worked there previously), the tax reform introduced by the FIDESZ-KDNP government in 2010 has reduced state revenue with HUF 444 billion per year. Almost three-fourths of this amount (74 percent) benefited the wealthiest 20 percent in society. While the study confirmed what many ordinary Hungarians already believed to be a fact, it has been discredited by the right-wing media, as well as, more surprisingly, by the management of *Századvég*, which has distanced itself from the study, arguing it 'does not reflect the position [of the foundation]'. See Csaba Tóth and Péter Virovácz, 'Winners and Losers: An assessment of the Hungarian flat tax reform with micro-simulation', *Public Finance Quarterly*, 2013, Vol. 58, No. 4, pp. 369-385

Through these measures the government aims to create one million new jobs by 2020.[963] While these measures have come under some (half-hearted) criticism from the socialist-liberal opposition in Budapest and Western journalists, they have resonated with the interests of powerful sections of Hungarian capital.[964]

Simultaneously, the new Orbán government has sought to 'renew' and 'broaden' Hungary's economic connections. On the one hand, this is to be achieved by opening the Hungarian economy towards the east, in particular the rapidly developing economies of China, India, and Russia, while, at the same time, seeking to 'maintain[…] the benefits of EU membership.'[965] Orbán recently confirmed the strategic shift in Hungarian trade and production during a visit to India, where he announced that his government aims to increase the share of Hungary's exports to non-European countries from 12 to 33 percent by 2018.[966] On the other hand, the Orbán government has been waging a persistent *guerre de mots* with carefully selected fractions of 'foreign' capital. Thus, in July 2010, the government, fearful of losing electoral support, refused the IMF's proposal to implement further austerity measures and opted instead to seek funds directly from global financial markets. The IMF and its acolytes were flabbergasted by the government's decision, labelling Orbán a 'maverick' and 'populist'.[967] Critics of the IMF, on the other hand, were enthralled. The American economist Mark Weisbrot even went so far as to argue that Hungary was 'pioneering an alternative to austerity' in Europe.[968] Apologists of neoliberalism in Hungary and abroad have since been infuriated even further by the government's decision to bring down the budget deficit and the foreign debt through 'unorthodox' measures, including the imposition of levies (so called 'crisis taxes') on banks and financial institutions, telecommunications, energy and large retail companies (all of which are mostly foreign owned) for a period of three years, and the re-centralisation of private pension funds. However, while neoliberal economists, foreign

---

963 GoH, *A Nemzeti Együttműködés Programja*, p. 17.

964 In fact, the government's programme includes a joint statement between Viktor Orbán and László Parragh, the Head of the Hungarian Chamber of Commerce and Industry (*Magyar Kereskedelmi és Iparkamara*, MKIK), in which the two express their agreement with the broader aims of the government's economic programme. Ibid., pp. 41-42. See also the interview with Sándor Demján in Martin and Várkonyi, *Álomcsőd*, pp. 37-50.

965 GoH, op. cit., pp. 39-40.

966 Viktor Orbán, 'Növelni kell az Európán kivüli magyar exportot', *MTI*, 17 October 2013.

967 *Financial Times*, 'Hungary Blunders' (editorial), 20 July 2010.

968 Mark Weisbrot, 'To Viktor go the spoils: how Hungary blazes a trail in Europe', *The Guardian*, 9 August 2010.

investors, and the business press have been fuming against these moves,[969] they have been popular with the Hungarian electorate.

Orbán's 'ballot box revolution' has, however, not only been limited to the economy, but extends to wider spheres of Hungarian society too. As Orbán explained at a speech in 2010, the constitutional revolution of FIDESZ was a 'bourgeois revolution' (*polgári forradalom*), which, unlike the blasphemous Bolshevik Revolution of 1917, had managed to overthrow the old regime without any bloodshed, while, at the same time, successfully 'channelling a revolutionary morale into Hungarian democracy'.[970] In order to consolidate its rule, the new national-conservative government in Budapest has moved with a swiftness and assertiveness akin to Louis Bonaparte himself, in order to create the Hungary that the Right has craved for decades. As Walter Mayr explains in *Der Spiegel*, 'The package of laws, ordinances and guidelines to define labor policies, which Orbán got off the ground in only 15 months reads like the minutes of a top-down coup d'état.'[971] To begin with, Orbán handed loyal party *apparatchiks* long-term posts in the corridors of power, including the President of the Republic, the State Audit Office, and the Constitutional Court, as well as top positions in cultural organisations (the state media, the film industry, and universities).[972] To cement its power further, the FIDESZ-KDNP coalition in parliament passed an incredible 363 new laws between May 2010 and December 2011 (about one new law for every two working days!), including reforms to the electoral law, the judicial system, the functioning of the central bank, and a highly controversial media law.[973] The media law, passed in August 2010, created a new media authority (the National Media and Info-communications Authority, NMHH) and empowered a five-member Media Council with the responsibility to maintain 'the undisturbed operation, in compliance with pertaining legislation in force, of the media and the markets for electronic communications, postal and information technology services', as well as 'establishing and maintaining fair competition', and 'supervising the compliant behaviour of service providers.' The members of the council are elected for nine years by a two-third supermajority of the FIDESZ-dominated parliament and a well-known FIDESZ politician

[969] For example, the *Financial Times* described the government's levy on banks and financial institutions as 'the most punitive considered anywhere in the world'. See Chris Bryant, 'Budapest's Mixed Messages Sow Confusion', *Financial Times*, 23 July 2010.
[970] Viktor Orbán, 'Új kezdet', speech at the 'Polgári Piknik' in Kötcse, Hungary, 30 May 2010.
[971] Walter Mayr, 'The Goulash Archipelago: EU Remains Silent as Hungary Veers Off Course', *Der Spiegel*, 19 August 2011.
[972] Ibid.
[973] Raymond Zhong, 'The Descent of Hungary', *Wall Street Journal*, 22 March 2012.

was appointed Director of the organisation.[974] The organisation, which is thus a virtual one-party authority, has the right to deny media outlets of their licenses and impose heavy fines of up to almost US$ 1 million on journalists and media outlets for publishing articles with 'improper content' – and it alone has the right to decide what is 'improper'.[975] The media law has been widely criticised by the parliamentary opposition in Hungary and the EU for jeopardising the freedom of the press. In response to the criticisms, the government has modified the law twice, but according to Freedom House, the renowned international press freedom organisation, 'the laws do not adequately protect media independence.'[976]

The radical changes introduced by the Orbán government were finally hardwired into the backbone of the Hungarian state on 1 January 2012, when Hungary's new constitution came into force. The new constitution, known as 'The Fundamental Law of Hungary' (*Magyarország Alaptörvénye*), was drawn up in less than a year and with little regard for non-conformist opinions.[977] According to Orbán, the 2010 elections represented the defeat of the old system and the establishment of a new one, and this historical act necessitated the establishment of a new constitution to carve in stone the goals of the revolution. However, the new constitution has come under widespread criticism by sceptics in Hungary and abroad, who have argued that it stands out as a model for a new type of reactionary democracy.[978] Three points, which appear especially problematic, stand out in particular. First, the new constitution claims that Hungary had no 'self-determination' in the period between 19 March 1944 (the beginning of the Nazi occupation of Hungary) and 2 May 1990 (the formation of the first democratically elected parliament since 1945). By so doing, the new national-conservative government in Budapest explicitly legitimises the authoritarian Horthy regime, which ruled Hungary between 1920-1944. Amongst its many wrongdoings, the Horthy regime fought on the side of Nazi Germany in World War II and was responsible for serious war crimes in the Soviet Union and Yugoslavia, as well as sending hundreds of thousands of Hungarian Jews to certain death in Nazi concentration

---

974 Korkut, *Liberalization Challenges in Hungary*, p. 181.
975 Eric Follath and Christoph Schult, 'Media Law Outrage: Hungary's "Orbanization" is Worrying Europe', *Der Spiegel*, 28 December 2010; Freedom House, 'Hungary', in *Freedom in the World 2013*, Washington, DC: Freedom House, 2013; Kim L. Scheppele, 'Hungary's Free Media', *New York Times*, 14 March 2012.
976 Freedom House, op. cit..
977 Korkut, op. cit., p. 182.
978 László Bruszt, 'Az 1989-es átmenet alkotmánya és az újjászületés dokumentuma', *Népszabadság*, 11 May 2011; Zoltán Fleck et al., 'Vélemény Magyarország Alaptörvényéről', *Élet és Irodalom*, Vol. 55, No. 26, 11 June 2011; Korkut, op. cit.; Gáspár M. Tamás, 'Az utolsó tengelyhatalom', *Magyar Narancs*, No. 23, 6 June 2012.

camps. As G.M. Tamás has noted in a recent critique, all forms of legal complications arise from this, including the negation of one of the basic principles of the UN Charter and the UN Declaration of Human Rights: the commitment against fascism.[979] Second, the new constitution makes explicit references to Christianity and St. Stephen's Holy Crown as symbols of the continuity of the Hungarian state, codifies an ethnicised idea of citizenship, defines marriage as 'a union between man and woman', and promotes the family as 'the basis of the nation's survival.'[980] Third, and finally, Hungary's new constitution codifies some of the central tenets of neoliberalism, including the enforcement of a balanced budget and a 'debt brake' (limiting the maximum level of public debt to 50 percent of GDP), while, at the same time, linking the provision of social rights to the fulfilment of obligations, which contribute to the performance of the Hungarian state.[981] On the basis of what I argued above, the new Hungarian constitution appears to be the final step in the Orbán government's attempt to hardwire a new, authoritarian neoliberal regime in Hungary.

At the time of writing (mid-2014), this attempt seems to have been relatively successful. After 1.7 percent of negative economic growth in 2012, the Hungarian economy finally turned the corner and grew by 1.1 percent in 2013. This trend seems to have sustained itself in the first half of 2014, with the economy growing by 1.1 and 0.8 percent respectively in the first two quarters of the year.[982] At the same time, unemployment is officially down to 8 percent (from a high of 11.8 percent in the first quarter of 2010), while inflation stood at a record-low 0.1 percent in July 2014.[983] In addition to this, in August 2013, the Orbán government repaid Hungary's 2008 loan to the IMF (ahead of schedule). Thus, as the government relentlessly reminded the electorate in the run-up to the 2014 general elections: 'Hungary is performing better [read: under the Orbán government].'[984] The message seems to have been convincing: in the 2014 general elections, the ruling

---

979 Tamás, 'Az utolsó tengelyhatalom'.
980 See article L of The Fundamental Law.
981 See articles N and O of The Fundamental Law.
982 Source: Eurostat Statistical Database (last accessed on: 12 September 2014).
983 Source: KSH Statistical Database (last accessed on: 12 September 2014).
984 GoH, 'Magyarország jobban teljesít', Budapest: Government of Hungary, 2013. Available on: http://jobbanteljesit.kormany.hu/ (last accessed on 18 January 2014). According to official figures by the government, it spent nearly HUF 800 million (ca US$ 3.6 million) of Hungarian taxpayers' money on advertisements in newspapers, radio and television channels, online platforms, and public spaces, in order to purvey this message to ordinary Hungarians. See Origo.hu, '800 millióért tudtuk meg, hogy Magyarország jobban teljesít', 2 January 2014. Available on: http://www.origo.hu/itthon/20140102-800-milliobol-tudtuk-meg-hogy-magyarorszag-jobban-teljesit.html (last accessed on: 18 January 2014).

FIDESZ-KDNP coalition won 44.5 percent of the votes, enabling it to regain its two-third supermajority in parliament.

Having said this, there are nevertheless important limitations to the accumulation regime introduced by the Orbán regime. To begin with, forecasts for the global economy continue to portray sluggish economic growth for the coming decade – the lowest since the 1930s. Making matters worse, even if the global economy would pick up, any recovery in Hungary is 'likely to be modest', as the potential for economic growth 'is held back by weak investment, low employment among low-skilled workers and shortcomings in labour and product markets', according to the OECD.[985] Finally, the neoconservative economic policies pursued by the Orbán regime have widened income inequalities between the rich and the poor.[986] With this in mind, from the viewpoint of the Hungarian working class, the outlook in Budapest does not look so bright after all.

Conclusion

In 1989 'actually existing socialism' came to an abrupt end in CEE. In the two decades that have passed since, the countries of the region (indeed the whole world) have lived in a neoliberal fantasyland. The zeitgeist of this period was summed up by the utopian 'end of history' thesis of the neoconservative American philosopher and political economist, Francis Fukuyama. According to Fukuyama, the downfall of Stalinism represented an, 'unabashed victory of economic and political liberalism', marking not only the 'triumph of West', but also 'the end of history as such'.[987]

The global economic crisis that began in 2007-2008 has questioned the triumphalism of neoliberal capitalism. As we demonstrated in section 2, the crisis revealed the weak

---

[985] OECD, *Economic Survey of Hungary 2014*, Paris: OECD Publishing, 2014, p. 10.

[986] According to recent figures from Eurostat 33.5 percent of the Hungarian population, eg. *circa* 3.3 million Hungarians, lived 'at risk of poverty or social exclusion' in 2013, which is an increase of 500,000 people (from 28.2 percent) since 2008. The data also show that a growing number of Hungarian workers live in poverty (calculated as 60 percent of the median income in Hungary, eg. HUF 65,000 per month). See Napi.hu, 'Drámai adatok Magyarországról – így terjed a szegénység', 14 August 2014. Available on: http://www.napi.hu/magyar_gazdasag/dramai_adatok_magyarorszagrol_igy_terjed_a_szegenyseg.585336.html (last accessed on: 23 August 2014). For the Eurostat figures, see Eurostat Statistical Database, 'People at risk of poverty or social exclusion' and 'Income distribution and monetary poverty'. Available on: http://epp.eurostat.ec.europa.eu/portal/page/portal/income_social_inclusion_living_conditions/data/main_tables# (last accessed on: 12 September 2014).

[987] Fukuyama, *The End of History and the Last Man*.

foundations of the specific neoliberal regime of accumulation that has been constructed in Hungary since 1989. At first sight, Hungary's vulnerability to the current crisis appears to be contingent on the fluctuations of the world market. Thus, fanatic Market Maoists or born-again Keynesians are calling for 'market reforms' or more 'state-led development' in the belief that these measures will put the economy 'back on track'.

In section 4 we provided our own assessment of Hungary's vulnerability to the global economic crisis, and argued that it reflected the shortcomings *inherent* in the neoliberal regime accumulation that had been consolidated since 1989. Under pressures from the world market, successive governments in Budapest, irrespective of their position on the political spectrum, pursued policies of liberalisation, privatisation, and marketisation in the desperate hope that these would help to turn around the economy and bring higher living standards to ordinary Hungarians. However, these reforms have failed to live up to their promises. Not surprisingly, this has led to widespread public anger and disillusion with free market capitalism and parliamentary democracy, as demonstrated by public opinion polls. Capitalist triumphalism thus seems to be giving way to the dystopia of 'capitalist realism'.[988] As we argued, it is against this background the we need to understand the policies pursued by the national-conservative FIDESZ-KDNP coalition, under the leadership of Prime Minister Orbán, since 2010. In our view, the Orbán regime represented an attempt to overcome the 'organic crisis' of Hungarian capitalism, through a combination of authoritarianism and neoliberalism. While this thesis does not attempt to assess the balance sheet of the Orbán regime, we claimed that, until mid-2014, it had been relatively successful in its attempt to construct hegemony for a new, authoritarian neoliberal regime.

[988] See Mark Fischer, *Capitalist Realism: Is There No Alternative?,* Winchester, UK: Zero Books, 2009, for an excellent diagnosis of the term.

CONCLUSION

The aim of this thesis has been to develop a deeper understanding of the origins of Hungary's neoliberal transformation and to analyse the contradictory and variegated development of the Hungarian political economy since the 'transition' in the 1980s to the current crisis. Thus, the main research questions asked in this thesis were: *How can we better understand the neoliberal transformation of the Hungarian political economy? Who were the central agents of neoliberal doxa, what methods did they use in order consolidate neoliberalism in Hungary, and what were the main outcomes? What explains Hungary's vulnerability to the global economic crisis and in what way is it relevant to the current conjuncture?* This Conclusion will seek to answer the above questions in summarised form, while also pointing to some of the broader lessons that can be learned from the Hungarian case study.

Rethinking the Political Economy of Neoliberal Transformation in Hungary

This thesis has offered a theoretically informed and empirically innovative analysis of what has arguably constituted some of the most important events in the history of the late 20th and early 21st century. The 'double transformation', from bureaucratic central planning and authoritarian regimes to a market economy and liberal democracy, in Hungary and elsewhere in Eastern Europe was not simply the predictable outcome of a failed economic model, or the victory of liberalism over 'totalitarian' regimes, as argued by neoliberal economists. Nor was it a straightforward outcome of the ideological attack of 'free-market fundamentalism' on the welfare state in its various forms (Keynesianism, 'socialism', or import-substitution in the 'Third World'), as argued by many institutionalist scholars. When conceptualised in *isolation* from wider developments in the capitalist world economy and international state system, orthodox approaches within the transformatology literature offer theoretically limited and empirically questionable conceptions of the ‘double transformation’ in Hungary and elsewhere in CEE.

Drawing on central concepts within Marxist political economy, in particular the theory of state capitalism, as well as novel empirical insights from primary sources in Hungary, we argued instead that the neoliberal transformation in Hungary (and elsewhere in the region) needs to be understood *in relation to* wider changes in the capitalist world economy since the end of World War II and, in particular, the reconfiguration of the world economy following the crisis of global capital accumulation in the mid-1970s. When viewed in this light the nominally ‘socialist’ economies in Eastern Europe showed marked *similarities* with the ‘capitalist’ economies in the West: the separation of the means of production from the producers, wage labour and its ‘subsumption’ to capital, brutal exploitation, hierarchic division of labour, money, rent, and the feverish drive to accumulate capital – an imperative derived from the systemic pressures of economic and geopolitical competition with the West. However, as we argued in Chapter 2, this regime of accumulation was neither ‘irrational’, nor ‘unique’ to ‘Soviet-style economies’. Rather, the tendency towards state intervention in the economy was something that was noticeable to varying degrees throughout the capitalist world economy, in particular in more ‘backward’ economies, in the period of ‘state capitalism/financial capitalism’ (1873-1929/45) and ‘“pure” state capitalism’ (1945-1973). In the case of Hungary, state intervention in the economy became increasingly important during the interwar years, and this trend was intensified in the aftermath of the World War II, as policymakers in Budapest turned to the state in order to reconstruct the war-ravaged Hungarian economy. Following the gradual ‘Sovietisation’ of Hungary in the late 1940s, this trend was intensified.

Although notoriously oppressive and exploitative, the Soviet model of late-capitalist development proved relatively successful in Eastern Europe. Similar to elsewhere, Hungarian policymakers in the 1950s and 1960s could boast of impressive economic growth rates, as state-led development ‘from above’ – emphasising rapid capital accumulation through investment in heavy industry, allocation by central planning, relative autarchy, and an extensive use of political and ideological incentives in order to increase production – achieved rapid industrialisation and urbanisation, accompanied by a concomitant rise in living standards. However, by the early 1960s, the limitations of the model were becoming visible, as the sources of 'primitive accumulation' (vast reserves of labour) were coming to an end. Throughout the Soviet bloc there were now increasing debates about the need for economic 'reform'. In Hungary, the quest for how to 'perfect the economic mechanism' was officially launched in 1966 when the Kádár regime announced plans to introduce a 'comprehensive reform' of the economy, known as the 'New Economic Mechanism' (NEM). As we described in detail in Chapter 3, the NEM was prepared by a working group, including renowned reform economists (Tibor Liska, János Kornai, and Márton Tardos) and advocates of 'market reformism' within the ruling MSZMP (Rezső Nyers, Jenő Fock, and István Hetényi). Officially introduced on 1 January 1968, the NEM came to be known as 'the most ambitious economic reform programme ever undertaken in a Warsaw Pact country'[989]. The reforms brought radical changes to the Hungarian economy, including greater autonomy to managers of state-owned enterprises in production and investment decisions, a more active role of world market prices in the economy, a differentiated wage system in the workplaces, and a gradual opening of the Hungarian economy to foreign trade with advanced 'capitalist' states in the West. The hope of Hungarian policymakers was that these reforms would lead to improvements in efficiency, spur productivity growth, and raise living standards, thereby enabling the Kádár regime to maintain its delicate 'social contract' with Hungarian society. Although relatively successful (in economic terms), the NEM was gradually scaled back after 1972, following increasing political pressure from 'conservative' sections of the ruling MSZMP and wider layers of Hungarian society (including managers of state-owned enterprise, the official trade union bureaucracy, and sections of the working class), as well as from Moscow and other Soviet bloc regimes.

But market reformist ideas did not remain in the ideological freeze box for long. The onset of the global economic crisis in 1973 and the subsequent decline in economic growth brought increasing pressures on policymakers on both sides of the Iron Curtain. The leaders of the Soviet bloc responded to these pressures by seeking greater integration with the capitalist world economy through the mechanisms of foreign trade and export-led growth. This was to be achieved through a policy of importing technologically advanced goods from the West, in return for industrial and agricultural products going in the other direction. The rapid rise in imports would be paid by loans from Western governments,

[989] Bartlett, *The Political Economy of Dual Transitions*, p. 2.

private banks, and international financial institutions. The Kádár regime supported this policy, as foreign borrowing seemed feasible, while export-led growth provided a politically prudent alternative to the introduction of unpopular (and potentially destabilising) austerity measures. However, greater integration with the world economy left the state capitalist economies exposed to their own internal contradictions and the vicissitudes of the world market. As a result, the debt burden of the state capitalist economies rose significantly from the mid-1970s and onwards. Hungary became a forerunner within the Soviet bloc (albeit in a negative sense): by the late-1980s, the country's external debt exceeded US$ 18 billion – the highest in the bloc and one of the highest in the world in per capita terms.

As the economic crisis of the state capitalist economies deepened in the 1980s there were increasing calls within the Soviet bloc for economic and political reforms. Thus, in Chapter 4 we demonstrated how the crisis of the Hungarian economy opened up a space, in which, what we defined as 'proto-neoliberal' social forces and ideas could emerge 'organically' in Hungarian society *before* the formal 'transition' from central planning to a free market economy in 1989. Drawing on semi-structured interviews and critical text analysis of proposed reform programmes, we identified a group of young and renowned radical reform associated with the influential Institute of Financial Research, the official research institute of the Ministry of Finance, as the 'organic intellectuals' of 'proto-neoliberalism' in late-Kádárist Hungary. Also known as the 'Dimitrov Square Boys', in reference to the Karl Marx University of Economics in Budapest (where most its members received their education), the group included such famous economists as Lajos Bokros, György Matolcsy, and György Surányi, who would all go on to play key roles in the neoliberalisation of *post*-transition Hungary and other countries in the region. The 'Dimitrov Square Boys' were well-versed in neoclassical economics (the *lingua franca* of neoliberalism), worked in tight, secluded bureaucratic teams, were united by their personal ties and common sociological background, and were driven by a strong sense of 'making history'. Moreover, they had close connections with 'reform communists' within the ruling MSZMP *and* leading members of the nascent opposition movement in Hungary, as well as international financial circles, which provided them with authority in reform debates at the time. In 1987, these economists published a programme for radical economic reform, known as 'Fordulat és Reform' (*Turnabout and Reform*). Commonly acknowledged by historians and political economists as the *Absichtserklärung* of neoliberalism in Hungary, the document contained many ideas of the 'transition', such as the deregulation of markets, openness to foreign investment and international trade as the main engine of economic growth, the pursuit macroeconomic stability at all costs necessary, and the privatisation of state-owned enterprises (although only implicitly stated), which would soon become 'common sense' among policymakers in Hungary and elsewhere in Eastern Europe. As we concluded in Chapter 4, the essential aim of 'Fordulat és Reform' was to save the ailing Hungarian economy from the organic crisis of state capitalism, while retaining the class power on which it rested, in order to save the ailing Hungarian economy from the organic crisis of state capitalism.

The Consolidation of Neoliberalism in Hungary *After* 1989: Contradictions and Limitations

Shifting our focus to post-1989 developments, Chapter 5 analysed the consolidation of neoliberalism in Hungary in the period between 1990-2006. In most of the transformatology literature, Hungary was portrayed during this period as a 'success story' of (neoliberal) transformation and a model to be emulated by other economies in the region, by virtue of its rapid and peaceful transformation, which arguably resulted in the creation of a dynamic market economy, geared towards international trade and capital inflows, accompanied by the establishment of a stable democratic regime with relatively generous social welfare policies. As an acknowledgement of Hungary's 'achievements', the country obtained membership in a number of prestigious international and regional bureaucratic organisations, including the OECD (in 1995), the WTO (1996), and NATO (1999). Finally, on 1 May 2004, Hungary joined the EU (together with seven other 'post-communist' states) to the tunes of Ludwig van Beethoven's 'Ode to Joy' – an event described by Alex Callinicos as the 'pinnacle of neoliberalism'[990] in Europe.

While we agreed with the commonly held view that Hungary was in a certain sense a 'success story' of neoliberal transformation in the region, our analysis differed from mainstream accounts on two important points. Firstly, while the consolidation of neoliberalism in Hungary and elsewhere in CEE was admittedly encouraged by *external*

[990] Alex Callinicos, keynote speech delivered at conference on '1989-2009: The East European Revolutions in Perspective', organised by *Debatte. Journal for Contemporary Central and Eastern Europe*, London, UK, 17 October 2009.

forces and dynamics – as exemplified by the insistence of hegemonic Western governments and international financial institutions on ‘structural adjustment’ as conditions for further loans, or the extensive investment in the ideological underpinnings of neoliberalism, in particular by USAID, EU, and multinational corporations – we argued that *domestic* social forces (including sections of the Hungarian capitalist class, political elites, and technocratic economists with close links to domestic and international policymakers, financial institutions, and multinational corporations) played a key role in lubricating different economic actors towards the pursuit of a neoliberal regime of accumulation. Thus, we pointed out that, irrespective of their political colour, the neoliberal restructuring of the Hungarian political economy was pursued by all post-transition governments in Budapest (albeit with differences in emphasis), in the hope that this would improve the ‘competitiveness’ of the ailing Hungarian economy and enable it to ‘catch-up’ with more advanced capitalist states in Western Europe. The introduction of a radical austerity programme in 1995, popularly known as the ‘Bokros Package’ and recognised as the largest austerity package in the history of post-1989 Hungary, by the socialist-liberal government headed by Gyula Horn, revealed the unbending determination of Hungarian policymakers to pursue neoliberal reform, even if it came at a cost of the curtailment of democratic and social rights, rising social polarisation, public discontent, and almost certain electoral defeat.

Second, in contrast to the prevailing view in the transformatology literature, we emphasised the inherent *contradictions* and *limitations* of what we described as ‘neoliberalism with Hungarian characteristics’. Thus, although rapid deregulation and privatisation contributed to the inflow of much-needed foreign direct investment, which enabled the Hungarian economy to grow by an impressive annual rate of more than 4 percent between 1997-2006, there was little evidence of this growth ‘trickling down’ to the popular masses. Instead, neoliberal restructuring led to chronic underemployment (creating what Marx termed the ‘industrial reserve army of labour’), growing polarisation of incomes both nationally *and* between different regions, and the entrenchment of poverty in Hungarian society (a particularly striking phenomenon among Hungary’s Roma minority). However, by the early 2000s, the sources of economic growth were diminishing, as inflows of foreign direct investment were decelerating in relative terms due to increasing inter-state competition both among the CEE economies *and* globally, following the rapid rise of China as a manufacturing powerhouse in the world economy. This was accompanied by increasingly bitter electoral rivalry between social-liberal and national-conservative political forces. In the autumn of 2006, public discontent with unpopular austerity measures, dishonest politicians, and the wider failures of the 'double transformation' exploded into the largest anti-government demonstrations in the brief history of Hungarian democracy. Yet, despite lacking popular support for further 'structural reforms' and increasing signs of economic turbulence ahead, the socialist-liberal government in Budapest, led by Ferenc Gyurcsány, decided to push ahead with further 'structural reforms'.

From 'Poster Boy' of Neoliberal Transformation to 'Basket Case': Hungary and the Global Economic Crisis

Turning our attention to contemporary events, Chapter 6 analysed the impact of the current global economic crisis on the Hungarian political economy. Following a critical review of dominant narratives of Hungary's crisis in the literature, we dismissed the view, popularised by the political Right, neo-conservative intellectuals, and sections of the Hungarian capitalist class, that the country's vulnerability to the crisis was the fault of 'corrupt politicians' and/or 'greedy bankers' associated with the ruling MSZP-SZDSZ coalition. Nor was it, we argued, due to a 'lack of regulatory oversight' or 'bad government policies', as argued by international and regional financial institutions or a plethora of renowned neoliberal and institutionalist economists in both Hungary and abroad. Drawing on central concepts of Marxist political economy, we argued instead that the current crisis constituted a 'crisis *in* neoliberal capitalism' on a global level, although not a 'crisis *of* Western-style [neoliberal] capitalism', as claimed by some influential thinkers on the Left, such as Iván Szelényi, as well as the political Right, including, most famously, the current Prime Minister of Hungary Viktor Orbán.

With an economy highly reliant on foreign capital and dependent on exports, we argued that the Hungarian economy was in a precarious position already *before* the onset of the crisis. As the global economic crisis expanded outwards from the United States, the 'heartland' of neoliberal capitalism, following the collapse of the sub-prime mortgage market in 2007, the Hungarian economy was hit in two waves: first, following the 'financial tsunami' that hit the global economy after the collapse of Lehman Brothers in

September 2008. This triggered a global credit-crunch, which by October 2008 had evolved into a sovereign debt crisis, after international investors speculatively sold Hungarian government bonds and the value of the *forint* depreciated sharply against the Euro and other major currencies. The government eventually averted bankruptcy after receiving a bailout of US$ 25.1 billion from international lenders (including the IMF, World Bank, and the EU). Second, as the financial crisis spread to the 'real economy', leading to a destructive downward spiral of declining levels of trade, which impacted negatively on production and employment. Although not as bad as the Baltic States, which suffered the worst recessions in the EU, the Hungarian economy was nonetheless badly afflicted by the global recession, with GDP contracting by 6.8 percent in 2009. This was worse than the performance of other 'Visegrád states' (the Czech Republic, Poland, and Slovakia), and also poorer than such advanced capitalist economies as the United States, Germany, and Japan.

The negative impact of the crisis was exacerbated by another round of austerity measures, introduced in 2009 by the semi-technocratic Bajnai government, in the hope that this would 'rebalance' the Hungarian economy and enable the country to regain its 'credibility' among foreign investors. By 2010, public anger and disillusionment with the existing state of affairs was near total, with surveys indicating a low level of support for 'the triple shibboleth'[991] of free-market capitalism, parliamentary democracy, and the 'West'. At the same time, support for the parties of the socialist-liberal coalition, which had been in power since 2002, was at an all-time low, while paramilitary groups connected to the fascist Jobbik party were marching up and down the country, calling for 'radical change' (*radikális változást*), while terrorising ethnic minorities, gays and lesbians, 'liberals' and 'communists'. The economic crisis in Hungary was thus turning into from what Gramsci described as a 'crisis of authority', or an 'organic crisis'.

It is within this context that the ascendancy of the Orbán regime needs to be situated. Since being catapulted back into power in 2010, the national-conservative government led by Viktor Orbán has implemented a number of policies that have raised eyebrows among foreign investors, policymakers, and pundits in both Hungary and abroad, including the refusal to implement further austerity measures as dictated by the IMF, the imposition of

[991] Tamás, 'Counter-revolution against a counter-revolution'.

‘crisis taxes’ on banks, energy, telecommunications, and large retail firms (most of whom are foreign owned), the placement of loyal party *apparatchiks* in the upper echelons of power, the passing of a new media law curtailing the freedom of the press, and, finally, the introduction of a new, legally problematic and socially regressive constitution. However, in contrast with those commentators, on both sides of the political spectrum, that have perceived the Orbán regime as a ‘deviation’ from the neoliberal consensus, we argued that it represented an emblematic case of a wider shift towards ‘authoritarian neoliberalism’[992] globally. Thus, the chief aim of the Orbán regime was not *only* the reordering of the Hungarian economy under the auspices of ‘populist’ policies or the curtailment of democracy, but to *fundamentally* transform Hungarian society through the means of ‘work’, ‘law and order’, and ‘family’, in order to overcome the structural problems of Hungarian capitalism and promote the development of a strong, entrepreneurial middle class supportive of national-conservative values. Although our analysis was limited (due to the still ongoing nature of the current crisis), our general assessment was that, until now, the Orbán regime had been relatively successful in achieving its objective.

The Relevance and Limitations of the Thesis and Suggestions for Further Research

By drawing on central concepts within Marxist political economy, in particular the theory of state capitalism, as well as a number of semi-structured interviews with Hungarian sources and critical text analysis of primary and secondary material on the transformation, this thesis has sought to offer a way to overcome the deeper theoretical, methodological, and empirical shortcomings shared by much of the transformatology literature. The account provided above thus necessitates a fundamental rethinking of dominant conceptualisations and periodisations of the transformation in CEE. While acknowledging that important economic, political, and social changes *did* take place in 1989, the origins of the ‘transition’ needs to be pushed back to the immediate years following the global economic crisis of 1973. The ‘double transformation’ in Hungary and elsewhere in the region in 1989 was not the victory of one system over another (‘East’ vs. ‘West’, ‘communism’ vs. ‘capitalism’, etc.), but rather the outcome of a wider shift in capitalist world economy, from state-led capitalism towards neoliberal capitalism. While external

[992] Bruff, ‘The Rise of Authoritarian Neoliberalism’. For similar assessments with regard to CEE, see Dale and Hardy, ‘Conclusion: The “Crash” in Central Eastern Europe’, pp. 258-261; Zizek, ‘The Deadlock’.

forces and pressures were a major driving force in this process, domestic actors played a key role in ensuring that the 'right medicine' was prescribed to the ailing Hungarian economy.

However, as we acknowledged in the Introduction, given the large historical scope of this thesis, there are certainly limitations to the thesis, while a number of issues call for further exploration. To begin with, in explaining the ascendancy of 'proto-neoliberalism' in late-Kádárist Hungary, we focused primarily on the pressures stemming from economic and geopolitical competition *between* East and West, and domestic calls for economic and political reform, while paying little or no attention to how wider processes of class struggle *globally* and *between* different 'fractions' of capital in dominant states of the world system influenced the behaviour of Hungarian policymakers. An analysis of these processes would arguably be helpful in explaining *how,* under *which* conditions, and with *what* methods neoliberal transformation was effectively realised. Moreover, although we have made some reference in passim to neoliberal transformations elsewhere in the world, this thesis has focused on Hungary as a paradigmatic case of neoliberal transformation in CEE. Exploring the similarities and difference with other 'paths to neoliberalism'[993] (to borrow the title of Marion Fourcade-Gourinchas and Sarah L. Babb's oft-cited article), deserves much further scholarly attention. For example, what does the example of Hungary tell us about the role of the labour movement and the political Left (from 'New Labour' and social democracy, through 'reform communist' parties, to the radical Left) in the development of neoliberalism? Or what does the current crisis (and the political responses to it) in Hungary tell us about the future direction of neoliberal capitalism and the possibility for progressive movements of resistance to develop? Having said this, it is our hope that this thesis might stimulate further research into these areas.

[993] Fourcade-Gourinchas and Babb, 'Rebirth of the Liberal Creed', pp. 533-579.

BIBLIOGRAPHY

Interviews

Interview with L. K., Budapest, 21 December 2011.

Interview with Z.M. P., Budapest, 21 December 2011.

Interview with E. Sz., Budapest, 23 March 2011.

Books, Journal- and Newspaper Artices

Ábrahám, Ambrus, 'Két évtizedes mélyponton a magyar ipar', *Népszabadság*, 16 February 2010.

ACEA, 'Country Profile: Hungary', European Automobile Manufacturers Association (ACEA), 2008. Available on: http://www.acea.be/index.php/country_profiles/detail/hungary (last accessed on: 21 January 2013).

Acuña, Carlos H. and William C. Smith, 'The Political Economy of Structural Adjustment: the Logic of Support and Opposition to Neoliberal Reform', in *Latin American Political Economy in the Age of Neoliberal Reform. Theoretical and Comparative Perspectives of the 1990s*, edited by Carlos H. Acuña, William C. Smith, and Eduardo A. Gamarra, Coral Gable, FL: University of Miami, 1994, pp. 17-66.

Adair, Bianca L., 'Interest Articulation in Communist Regimes: the New Economic Mechanism in Hungary, 1962-1980', *East European Quarterly,* 2003, Vol. 37, No. 1, pp. 101-126.

Aglietta, Michel, *A Theory of Capitalist Regulation: the US Experience*, London: New Left Books, [1974]/1979.

Aldcroft, Derek H. and Steven Morewood, *Economic Change in Eastern Europe since 1918,* Aldershot: Edward Elgar, 1995.

Aligica, Paul D. and Anthony J. Evans, *The Neoliberal Revolution in Eastern Europe: Economic Ideas in the Transition from Communism,* Cheltenham: Edward Elgar, 2009.

Allinson, Jamie C. and Alex Anievas, 'The Uses and Misuses of Uneven and Combined Development: an Anatomy of a Concept', *Cambridge Review of International Affairs*, 2009, Vol. 22. No. 1, pp. 47-67.

Amin, Samir, *Accumulation on a world scale: a critique of the theory of underdevelopment*, New York, NY: Monthly Review Press, 1974.

Amsden, Alice, *Asia's Next Giant: South Korea and Late Industrialization*, Oxford: Oxford University Press, 1989.

— *The Rise of 'the Rest': Challenges to the West from Late-Industrializing Economies*, Oxford: Oxford University Press, 2001.

Amsden, Alice, Jacek Kochanowicz, and Lance Taylor, *The Market Meets its Match: Restructuring the Economies of Eastern Europe*, Cambridge, MA: Harvard University Press, 1994.

Anderson, Perry, *Lineages of the Absolutist State*, London: New Left Books, 1974.

Andor, László, *Hungary on the Road to the European Union: A Transition in Blue*, Westport, CT: Greenwood Press, 2000.

— 'Medgyessytől Medgyessyig: Vázlat az MSZP gazdaságpolitikájának tizenöt évéről', in *Útkeresések: a magyar szociáldemokrácia tegnap és ma*, edited by István Feitl, György Földes, and László Hubai, Budapest: Napvilág Kiadó, 2004, pp. 168-195.

— 'Social Democracy and Economic Policy in Hungary, 1990-2005', in *Regimes and Transformations: Hungary in the Twentieth Century*, edited by István Feitl and Balázs Sipos, Budapest: Napvilág Kiadó, 2005, pp. 429-464.

— 'Hungary in the Financial Crisis: A (Basket) Case Study', *Debatte. Journal of Contemporary Central and Eastern Europe*, 2009, Vol. 17, No. 3, pp. 285-296.

— *Eltévedt éllovas. Siker és kudarc a rendszerváltó gazdaságpolitikában*, Budapest: Napvilág Kiadó, 2010.

Andor, László and Martin Summers, *Market Failure: A Guide to Eastern Europe's 'Economic Miracle'*, London: Pluto Press, 1998.

Anievas, Alexander and Nisancioglu Kerem, 'What's at Stake in the Transition Debate? Rethinking the Origins of Capitalism and the "Rise of the West"', *Millennium: Journal of International Studies*, 2013, Vol. 42, No. 1, pp. 78-102.

Antal, László, 'A Bokros csomag', *Beszélő*, June 2000, pp. 82-91. Available on: http://beszelo.c3.hu/cikkek/a-bokros-csomag (last accessed on: 8 February 2013).

Antal, László, Lajos Bokros, István Csillag, László Lengyel and György Matolcsy (eds.), ‘Fordulat és Reform’, *Medvetánc*, 1987, No. 2, pp. 1-130.

Antall, József, *Selected Speeches and Interviews, 1989-1993,* edited by Géza Jeszenszky, Budapest: József Antall Foundation, 2008.

Apeldoorn, Bastian van, *Transnational Capitalism and the Struggle over European Integration*, London: Routledge, 2002.

Arksey, Hillary and Peter Knight, *Interviewing for Social Scientists: an Introductory Resource with Examples*, London: SAGE, 1999.

Arrighi, Giovanni, ‘World Income Inequalities and the Future of Socialism’, *New Left Review*, 1991, Vol. 1, No. 189, pp. 39-66.

— *The Long Twentieth Century: Money, Power, and the Origins of our Times.* London: Verso, 1994.

— *Adam Smith in Beijing: Lineages of the Twenty-first Century*, London: Verso, 2008.

Arrighi, Giovanni and Jessica Drangel, ‘Stratification of the world-economy: an explanation of the semiperipheral zone’, *Review*, 1986, Vol. 10, No. 1, pp. 9-74.

Arrighi, Giovanni and Beverly Silver (eds.), *Chaos and Governance in the Modern World System*, Minneapolis, MN: University of Minnesota Press, 1999.

Åslund, Anders, *Post-Communist Economic Revolutions: How Big a Bang?,* Washington, DC: Center for Strategic and International Studies, 1992.

— *Building Capitalism: The Transformation of the Former Soviet Bloc*, Cambridge: Cambridge University Press, 2002.

— *How Capitalism was Built: The Transformation of Central and Eastern Europe, Russia, and Central Asia*, Cambridge: Cambridge University Press, 2007.

Avery, Natalie, ‘Stealing from the State’, *Multinational Monitor*, 1993, Vol. 15, No. 9. Available on: http://www.multinationalmonitor.org/hyper/issues/1993/09/mm0993_10.html (last accessed on: 9 January 2013).

Babb, Sarah, *Managing Mexico: Economists from Nationalism to Neoliberalism*, Princeton, NJ: Princeton University Press, 2004.

Bairoch, Paul, ‘Geographical Structure and Trade Balance of European Foreign Trade from 1800 to 1970’, *Journal of European Economic History,* 1974, Vol. 3, No. 3, pp. 557-608.

Bajnai, Gordon, ‘Az ország sokat tanult ebből a válságból’, in *Álomcsőd. Interjúk a válságról*, edited by József P. Martin and Iván Várkonyi, Budapest: Alinea Kiadó, 2010, pp. 11-26.

Balcerowicz, Leszek, *Socialism, Capitalism, Transformation*, Budapest: Central European University Press, 1995.

Bandelj, Nina, *From Communists to Foreign Capitalists: The Social Foundations of Foreign Direct Investment in Postsocialist Europe*, Princeton, NJ: Princeton University Press, 2008.

Baran, Paul, *The Political Economy of Growth*, New York, NY: Monthly Review Press, 1957.

Baran, Paul and Paul Sweezy, *Monopoly Capital: An Essay on the American Economic and Social Order*, New York, NY: Monthly Review Press, 1966.

Barker, Colin, *Festival of the Oppressed: Solidarity, Reform and Revolution in Poland 1980-81*, London: Bookmarks, 1986.

— 'Beyond Trotsky: Extending Combined and Uneven Development', in *100 Years of Permanent Revolution: Results and Prospects,* edited by Bill Dunn and Hugo Radice, London: Pluto Press, 2006, pp. 72-87.

Bartlett, David L., *The Political Economy of Dual Transitions: Market Reform and Democratization in Hungary,* Ann Arbor, MI: University of Michigan Press, 1997.

Batt, Judy, *Economic Reform and Political Change in Eastern Europe*, New York, NY: St. Martin's Press, 1988.

BBC 2006, 'Excerpts: Hungarian Lies Speech', 19 September 2006. Available on: http://news.bbc.co.uk/1/hi/world/europe/5359546.stm.

Becker, Joachim and Johannes Jäger, 'Development Trajectories in the Crisis in Europe', *Debatte: Journal of Contemporary Central and Eastern Europe*, 2010, Vol. 18, No. 1, pp. 5–27.

Békesi, László, 'A magyar gazdaság helyzetéről, kilátásairól, a gazdaságpolitika dilemmáiról és feladatairól', *Élet és Irodalom*, Vol. 54, No. 9, 5 March 2010.

Berend, Iván. T., *Gazdasági útkeresés 1956-1965*, Budapest: Magvetö Kőnyvkiadó, 1983.

— *The Hungarian Economic Reforms, 1957-1990*, Cambridge: Cambridge University Press, 1990.

— *Decades of Crisis: Central and Eastern Europe before World War II*, Berkeley, CA: University of California Press, 1998.

— *History Derailed: Central and Eastern Europe in the Long Nineteenth Century*, Berkeley, CA: University of California Press, 2003.

— *Decades of Crisis: Central and Eastern Europe before World War II*, Berkeley, CA: University of California Press, 2009.

Berend, Iván T. and György Ránki, *Economic Development in East-Central Europe in the 19th and 20th Centuries*, New York, NY: Columbia University Press, 1974.

— *Underdevelopment and Economic Growth: Studies in Hungarian Social and Economic History*, Budapest: Akadémiai Kiadó, 1979.

— *The European Periphery and Industrialization, 1780-1914*, Cambridge: Cambridge University Press, 1982.

— *The Hungarian Economy in the Twentieth Century*, London: Croom Helm, 1985.

Berzins, Jan and Jeffery Sommers, 'Twenty Years Lost: Latvia's Failed Development in the Post-Soviet World', in *First the Transition, Then the Crash: Eastern Europe in the 2000s*, edited by Gareth Dale, London: Pluto Press, 2011, pp. 119-142.

Bieler, Andreas, 'The Struggle Over EU Enlargement: A Historical Materialist Analysis of European Integration', *Journal of European Public Policy*, 2002, Vol. 9, No. 4, pp. 575-597.

Bieler, Andreas and Adam D. Morton, 'The Gordian Knot of Agency-Structure in International Relations: A Neo-Gramscian Perspective', *European Journal of Internaional Relations*, 2001, Vol. 7, No.1, pp. 5-35.

— 'A Critical Theory Route to Hegemony, World Order and Historical Change: Neo-Gramscian Perspectives in International Relations, *Capital & Class*, 2004, Vol. 28, No. 1, pp. 85-113.

— *Images of Gramsci: Connections and Contentions in Political Theory and International Relations*, London: Routledge, 2006.

Biglaiser, Glen, *Guardians of the Nation? Economists, Generals, and Economic Reform in Latin America.* Notre Dame, IN: University of Notre Dame Press, 2002.

Bihari, Mihály, 'Reform és Demokrácia', *Medvetánc*, 1987, No. 2, pp. 165-227.

Birch, Kean and Vlad Mykhenko (eds.), *The Rise and Fall of Neoliberalism*, London: Zed Books, 2010.

Blahó, Miklós, 'A magyar gazdaság átmeneti állapotban van', *Népszabadság*, 16 November 2007.

Blanchard, Olivier, Rudiger Dornbusch, Paul Krugman, Richard Layard, and Larry Summers (eds.), *Reform in Eastern Europe*, Cambridge, MA: MIT Press, 1991.

Blejer, Mario I. and Fabrizio Coricelli, *The Making of Economic Reform in Eastern Europe: Conversations with Leading Reformers in Poland, Hungary and the Czech Republic*, Aldershot: Edward Elgar, 1994.

Block, Fred, *Revising State Theory*, Philadelphia, PA: Temple University Press, 1987.

Bloomberg Business Week, 'Simor-Orban Battle Means Hungarian Policy Divisions Until 2013', 16 July 2010. Available on: http://www.businessweek.com/news/2010-07-16/simor-orban-battle-means-hungarian-policy-divisions-until-2013.html.

Blyth, Mark, *Great Transformations: Economic Ideas and Institutional Change in the Twentieth Century*, Cambridge: Cambridge University Press, 2002.

Bockman, Johanna, *Markets in the Name of Socialism: the Left-Wing Origins of Neo-liberalism*, Stanford, CA: Stanford University Press, 2010.

— 'The Long Road to 1989. Neoclassical Economics, Alternative Socialisms, and the Advent of Neoliberalism', *Radical History Review*, 2012, Issue 112, pp. 9-42.

Bockman, Johanna and Gil Eyal, 'Eastern Europe as a Laboratory for Economic Know-ledge: the Transnational Roots of Neoliberalism', *American Journal of Sociology,* 2002, Vol. 108, No. 2, pp. 310-352.

Bodnár, Judit, 'Becoming Bourgeois: (Postsocialist) Utopias of Isolation and Civilization', in *Evil Paradises: Dreamworlds of Neoliberalism*, edited by Mike Davis and Daniel B. Monk, New York, NY: The New Press, 2007, pp. 140-151.

Bogár, László, *Magyarország felszámolása*, Budapest: Kairosz Kiadó, 2008.

Bohle, Dorothee, 'Internationalisation": An issue neglected in the path-dependency approach to post-communist transformation', in *Democratic and Capitalist Transitions in Eastern Europe*, edited by Michel Dobry, Dordrecht: Kluwer Academic Press, 2000, pp. 235-261.

— 'Erweiterung und Vertiefung der EU: Neoliberale Restrukturierung und Trans-nationales Kapital', *PROKLA*, 2002, Vol. 32, No. 3, pp. 353-379.

— 'Countries in Distress: Transformation, Transnationalisation, and Crisis in Hungary and Latvia', *Emecon: Employment and Economy in Central and Eastern Europe*, 2010, Vol. 1. No. 1. Available on: http://www.emecon.eu/current-issue/bohle/ (last accessed on 30 November 2012).

Bohle, Dorothee and Béla Greskovits, 'Development Paths on Europe's Periphery: Hungary's and Poland's Return to Europe', *Polish Sociological Review*, 2001, Vol. 33, No. 1, pp. 3-27.

— 'Capitalism without Compromise: Strong Business and Weak Labor in Eastern Europe's New Transnational Industries, *Studies in Comparative International Development*, 2006, Vol. 41, No. 1, pp. 3-25.

— 'Neoliberalism, Embedded Neoliberalism and Neocorporatism: Towards Trans-national Capitalism in Central-Eastern Europe', *West European Politics*, 2007, Vol. 30, No. 3, pp. 443-466.

— ‘The State, Internationalization, and Capitalist Diversity in Eastern Europe’, *Competition & Change*, 2007, Vol. 11, No. 2, pp. 89-115.

— ‘Varieties of Capitalism and Capitalism “tout court”’, *European Journal of Sociology*, 2009, Vol. 50, No. 3, pp. 355-386.

— *Capitalist Diversity on Europe's Periphery*, Ithaca, NY: Cornell University Press, 2012.

Bohle, Dorothee and Gisela Neunhöffer, ‘Why is There No Third Way? The Role of Neo-liberal Ideology, Networks and Think Tanks in Combating Market Socialism and Shaping Transformation in Poland’, in *Neoliberal Hegemony: A Global Critique,* edited by Dieter Plehwe, Bernhard A. Walpen, and Gisela Neunhöffer, London: Routledge, 2006, pp. 89-104.

Bokros, Lajos, ‘A reformok kritikus tömege, I-II’, *Élet és Irodalom*, Vol. 53, No. 4, 23 January 2009.

Bönker, Frank, Klaus Müller, and Andreas Pickel, ‘Cross-Disciplinary Approaches to Transformation: Context and Agenda’, in *Postcommunist Transformation and the Social Sciences: Cross-disciplinary Approaches*, edited by *id.*, London: Macmillan, 2002, p. 1-37.

Borhi, László G., ‘The Merchants of the Kremlin: The Economic Roots of Soviet Expansion in Hungary’, *Woodrow Wilson Center for International Scholars*, Working Paper No. 28, Washington, DC: Woodrow Wilson Center for International Scholars, 2000.

Boyer, Robert, *The Regulation School: A Critical Introduction*, New York, NY: Columbia University Press, 1990.

Bozóki, András and Eszter Simon, ‘Hungary since 1989’, in *Central and Southeast European Politics Since 1989*, edited by Sabrina P. Ramet, Cambridge: Cambridge University Press, 2010, pp. 204-232.

Brabant, Jozef M. van, *The Political Economy of Transition: Opportunities and Limits of the Transformation*, London: Routledge, 1998.

Braithwaithe, Jeanine, Christiaan Grootaert, and Branko Milanovic (eds.), *Poverty and Social Assistance in Transition Countries*, New York, NY: St. Martin’s Press, 2000.

Braudel, Fernand, *The Mediterranean and the Mediterranean World in the Age of Philip II*, New York, NY: Harper & Row, 1972.

Brenner, Robert, ‘The Origins of Capitalist Development: A Critique of Neo-Smithian Marxism’, *New Left Review*, 1977, Vol. 1, No. 104, pp. 25-92.

Brenner, Neil, Jamie Peck, Nik Theodore, ‘Variegated Neoliberalization: Geographies, Modalities, Pathways’, *Global Networks*, 2010, Vol. 10, No. 2, pp. 182-222.

Brenner, Neil and Nik Theodore, 'Cities and the geographies of "actually existing neo-liberalism"', *Antipode*, 2002, Vol. 34, No. 3, pp. 349-379.

Brenton, Paul and Daniel Gros, 'Trade Reorientation and Recovery in Transition Economies', *Oxford Review of Economic Policy*, 1997, Vol. 13, No. 2, pp. 65-76.

Brown, Archie, *The Rise and Fall of Communism,* London: The Bodley Head, 2009.

Bruff, Ian, 'The Rise of Authoritarian Neoliberalism', *Rethinking Marxism: A Journal of Economics, Culture, and Society*, 2014, Vol. 26, No.1, pp. 113-129.

Brus, Wlodzimierz, *The General Problems of the Functioning of the Socialist Economy*, Warsaw: PWN, 1961 (translated into English and published in 1972 as *The Market in a Socialist Economy*).

Brus, Wlodzimierz and Kazimierz Laski, *From Marx to the Market: Socialism in Search of an Economic System*, Oxford: Clarendon, 1989.

Bruszt, László, '1989: the Negotiated Revolution in Hungary', *Social Research: An International Quarterly,* 1990, Vol. 57, No. 2, pp. 365-382.

— 'Az 1989-es átmenet alkotmánya és az újjászületés dokumentuma', *Népszabadság*, 11 May 2011.

Bryant, Chris, 'Hungarians in Debt to Swiss Franc', *Financial Times*, 16 July 2010.

— 'Budapest's Mixed Messages Sow Confusion', *Financial Times*, 23 July 2010.

Bryman, Alan, *Social Research Methods*, Oxford: Oxford University Press, 2004.

Brzezinski, Zbigniew, *The Grand Failure: The Birth and Death Of Communism in the Twentieth Century*, London: Macdonald, 1990.

Budd, Adrian, 'Gramsci and international relations', *International Socialism*, 2007, No. 114.

Bukharin, Nikolai, *Imperialism and world economy*, New York, NY: H. Fertig, 1966.

Burnham, Peter, 'Neo-Gramscian Hegemony and the International Order', *Capital & Class*, 1991, No. 45, pp. 73–93.

Bush, George H.W., 'Address Before a Joint Session of the Congress on the Persian Gulf Crisis and the Federal Budget Deficit', Washington, DC, 11 September 1990.

Callinicos, Alex, *The Revolutionary Ideas of Karl Marx*, London: Bookmarks, 2004.

— 'Does Capitalism Need the State System?', *Cambridge Review of International Affairs*, 2007, Vol. 20, No. 4, pp. 533-549.

— keynote speech delivered at conference on ‘1989-2009: The East European Revolutions in Perspective’, organised by *Debatte. Journal for Contemporary Central and Eastern Europe*, London, UK, 17 October 2009.

Camdessus, Michel, ‘IMF, Hungary Continue Dialogue; Camdessus Welcomes Measures’, IMF News Brief No. 95/14, 6 June 1995, Washington, DC: International Monetary Fund. Available on: https://www.imf.org/external/np/sec/nb/1995/nb9514.htm (last accessed on: 22 January 2013).

Canning, Anna and Paul Hare, ‘The Privatization Process – Economic and Political Aspects of the Hungarian Approach’, in *Privatization in Central and Eastern Europe*, edited by Saul Estrin, London: Longman, 1994, pp. 176-217.

Cardoso, Felipe H. and Enzo Faletto, *Dependency and Development in Latin America*, Berkeley, CA: University of California Press, 1979.

Cass, Fergus, ‘Attracting FDI to transition countries: the use of incentives and promotion agencies’, *Transnational Corporations*, 2007, Vol. 16, No. 2, pp. 77-122.

Castree, Noel, ‘The 2007-2009 Financial Crisis: Narrating and Politicising a Calamity’, *Human Geography*, 2010, Vol. 3, No. 1.

Cerny, Phil, *The Changing Architecture of Politics: Structure, Agency and the Future of the State*, London: Sage, 1990.

Chang, Ha-Yoon, *Kicking Away the Ladder: Development Strategy in Historical Perspective*, London: Anthem Press, 2002.

Chase-Dunn, Christopher, *Global Formations. Structures of the World-Economy*, Lanham, MD: Rowman & Littlefield, 1998.

Chirot, Daniel, *The Origins of Backwardness in Eastern Europe: Economics and Politics from the Middle Ages until the Early Twentieth Century*, Berkeley, CA: University of California Press, 1989.

Choonara Joseph, ‘Marxist accounts of the crisis’, *International Socialism*, 2009, No. 123, pp. 81-110.

Clarke, Simon, ‘Capital, Fractions of Capital and the State: ‘Neo-Marxist’ Analysis of the South African State’, *Capital & Class*, 1978, Vol. 2, No. 2, pp. 32-77.

Cliff, Tony, *State Capitalism in Russia*, London: Bookmarks, [1948]/1996.

Coates, David (ed), *Varieties of Capitalism, Varieties of Approaches*, Basingstoke: Palgrave Macmillan, 2005.

Connolly, Kate, ‘Hungarian PM admits he worked as a spy catcher’, *The Guardian*, 20 June 2002.

Connolly, Richard, ‘The Determinants of the Economic Crisis in Post-Socialist Europe’, *Europe-Asia Studies*, 2012, Vol. 64, No. 1, pp. 35-67.

Cottarelli, Carlo (ed.), *Hungary: Economic Policies for Sustainable Growth*, Washington, DC: International Monetary Fund, 1998.

Cox, Michael, ‘The uses and abuses of history: the end of the Cold War and Soviet collapse’, *International Politics*, 2011, Vol. 48, No. 4-5, pp. 627-646.

Cox, Robert W., ‘Social Forces, States and World Orders: Beyond International Relations Theory’, *Millennium: Journal of International Studies*, 1981, Vol. 10, No. 2, pp. 126-155.

— ‘Gramsci, Hegemony and International Relations: An Essay in Method’, *Millennium: Journal of International Studies*, 1983, Vol. 12, No. 2, pp. 162-175.

— *Production, Power and World Order: Social Forces in the Making of History*, New York, NY: Columbia Press, 1987.

— ‘Global Perestroika’, in *The Socialist Register 1992*, edited by Ralph Miliband and Leo Panitch, London: Merlin, 1992, pp. 26-43.

Cox, Terry and Bob Mason, *Social and Economic Transformation in East Central Europe: Institutions, Property Relations, and Social Interests*, Cheltenham: Edward Elgar, 1999.

Crouch, Colin, *The Strange Non-Death of Neoliberalism*, Cambridge: Polity Press, 2011.

Crouch, Colin and Henry Farrell, ‘Breaking the path of institutional development? Alternatives to the new determinism’, *Rationality and Society*, 2004, Vol. 16, No. 1, p. 5-43.

Csaba, László, ‘Hungary and the IMF: The Experience of a Cordial Discord’, *Journal of Comparative Economics*, 1995, Vol. 20, No. 2, pp. 211-234.

— ‘Transformation in Hungary and (in) Hungarian Economics, 1978-1996’. Working Paper No. 97/6, Frankfurt: Frankfurter Institut für Transformationstudien, 1997.

— ‘Between Transition and EU Accession: Hungary at the Millennium’, *Europe-Asia Studies*, 2000, Vol. 52, No. 5, pp. 805-827.

— ‘Economics: Hungary’, in *Three Social Science Disciplines in Central and Eastern Europe. Handbook on Economics, Political Science and Sociology (1989-2001)*, edited by Max Kaase, Vera Sparschuch, Agnieszka Wenniger, Bonn and Berlin: Social Science Information Centre, 2002. Available online on: http://www.ssoar.info/ssoar/bitstream/handle/document/27869/ssoar-2002-kaase_et_al-three_social_science_disciplines_in.pdf?sequence=1 (last accessed on: 5 December 2013).

— *The New Political Economy of Emerging Europe*, Budapest: Akadémiai Kiadó, 2007.

Csáki, György and Gábor Karsai (eds.), *The Evolution of the Hungarian Economy, 1848-2000, Vol. III, Hungary: From Transition to Integration*, New York, NY: Columbia University Press, 2001.

Csurka, István (ed), *Néhány gondolat és nyolc társgondolat*, Budapest: Magyar Fórum, 1992.

Dale, Gareth, *Between State Capitalism And Globalisation, The Collapse of The East German Economy,* Bern: Peter Lang AG, 2004.

— 'Introduction: The Transition in Central and Eastern Europe', in *First the Transition Then the Crash: Eastern Europe in the 2000s*, edited by *id*., London: Pluto Press, 2011, pp. 1-20.

— 'Double Movements and Pendular Forces: Polanyian Perspectives on the Neoliberal Age', *Current Sociology*, 2012, Vol. 60, No. 1, pp. 1-27.

Dale, Gareth and Jane Hardy, 'Conclusion: The "Crash" in Central Eastern Europe', in *First the Transition, Then the Crisis: Eastern Europe in the 2000s*, edited by Gareth Dale, London: Pluto Press, 2011, pp. 251-263.

Dardot, Pierre and Christian Laval, *The New Way of the World: On Neoliberal Society*, London: Verso, 2013.

Darvas, Zsolt, 'The rise and fall of Hungary', *The Guardian*, 29 October 2008.

Davidson, Neil, 'From Deflected Permanent Revolution to Uneven and Combined Development', *International Socialism*, 2010, Vol. 128, No. 2.

— 'Introduction: What was Neoliberalism?', in *Neoliberal Scotland: Class and Society in a Stateless Nation,* edited by Neil Davidson, Patricia McCafferty, and David Miller, Cambridge: Cambridge Scholars Publishing, 2010, pp. 1-90.

Debreczeni, József, *Orbán Viktor*, Budapest: Osiris Kiadó, 2002.

Demján, Sándor, 'A válság mentett meg minket', in *Álomcsőd. Interjúk a válságról*, edited by József P. Martin and Iván Várkonyi, Budapest: Alinea Kiadó, 2010, pp. 37-50.

Denton, Nicholas, 'Intimate Network: Economic Policy-makers', *Financial Times*, 17 September 1990.

— 'A Flawed Jewel Impatient to Enhance its Lustre', *Financial Times*, 26 September 1990.

— 'Delay for Hungary in IMF Pay-outs', *Financial Times*, 11 December 1993.

Denton, Nicholas and Christopher Bobinski, 'Hungary Releases its Privatization Shortlist', *Financial Times*, 15 September 1990.

Dimireva, Ina, ‘Hungary Investment Climate 2009’, 2009. Available on: http://www.eubusiness.com/europe/hungary/invest (last accessed on 8 June 2010).

Diczházi, Bertalan, ‘The role of foreign capital in privatization’, in *Privatization in Hungary*, edited by Bertalan Diczházi, György Csáki, and Ákos Macher, Budapest: GJW Consulting on behalf of the Hungarian Privatization and State Holding Company (ÁPV Rt.), 2000.

Djilas, Milovan, *The New Class: An Analysis of the Communist System.* London: Thames and Hudson, 1957.

Dobbs, Maurice, *Studies in the Development of Capitalism*, London: Routledge, 1946.

Domanski, Boleslaw, ‘Poland: labour and the relocation of manufacturing from the EU’, in *CEE countries in EU companies’ strategies of industrial restructuring and relocation*, edited by Grigor Gradev, Brussels: European Trade Union Institute, 2001, pp. 21-49.

Dombrády, Loránd, *Hadsereg és politika Magyarországon 1938-1941*, Budapest: Kossuth Könyvkiadó, 1986.

Dornbush, Rudiger and Sebastian Edwards (eds.), *The Macroeconomics of Populism in Latin America*, Chicago, IL: University of Chicago Press, 1991.

Dörrenbächer, Christopher, ‘Challenges for Foreign-owned Subsidiaries in FDI-led Modernization Strategies: The Case of Hungary’, *Competition & Change*, 2007, Vol. 11, No. 2, pp. 179-197.

Drahokoupil, Jan, *Globalization and the State in Central and Eastern Europe: The Politics of Foreign Direct Investment*, London: Routledge, 2009.

Dreifelds, Juris, *Latvia in Transition*, Cambridge: Cambridge University Press, 1996.

Duménil, Gerard and Dominique Lévy, *Capital Resurgent: Roots of the Neoliberal Revolution*, Cambridge, MA: Harvard University Press, 2004.

— *The Crisis of Neoliberalism*, Cambridge, MA: Harvard University Press, 2010.

Dunayevskaya, Raya, *Russia as State Capitalism,* Detroit, MI: News & Letters, 1973.

— *The Marxist-Humanist Theory of State-Capitalism: Selected Writings,* Chicago, IL: News & Letters, 1992.

Dunn, Bill, *Global Political Economy: A Marxist Critique*, London: Pluto Press, 2009.

— ‘The Strange Death of Neoliberalism: The Case of the Missing Corpse’, in *Neoliberalism: Beyond the Free Market*, edited by Damien Cahill, Lindy Edwards, and Frank Stilwell, Cheltenham, UK: Edward Elgar Publishing, 2012, pp. 231-250.

Dunn, Bill and Hugo Radice (eds.), *100 Years of Permanent Revolution: Results and Prospects,* London: Pluto Press, 2006.

Easterly, William, 'The Lost Decades: Developing Countries' Stagnation in Spite of Policy Reform, 1980-1998', *Journal of Economic Growth*, 2001, Vol. 6, No. 2, pp. 135-157.

EBRD, *Transition Report*, *inter alia* since 1991, London: EBRD.

'Egyenes beszéd', interview with Gábor Kuncze, 30 July 2013. Available on: http://www.atv.hu/videok/video-20130730-kuncze-gabor (last accessed on: 30 July 2013).

Eichengreen, Barry and Kevin H. O'Rourke, 'A tale of two depressions: What do the new data tell us?', *VoxEU*, 2010. Available on: http://www.voxeu.org/article/tale-two-depressions-what-do-new-data-tell-us-february-2010-update (last accessed on: 31 December 2013).

EIU, *Country profile 2004: Hungary*, London: The Economist Intelligence Unit, 2004.

Ekiert, Grzegorz, *The State against Society: Political Crises and Their Aftermath in East Central Europe*, Princeton, NJ: Princeton University Press, 1996.

Elkan, Rachel van, 'Financial Markets in Hungary', in *Hungary: Economic Policies for Sustainable Growth*, edited by Carlo Cottarelli, Washington, DC: International Monetary Fund, 1998, pp. 81-91.

— 'Privatization', *Hungary: Economic Policies for Sustainable Growth*, edited by Carlo Cottarelli, Washington, DC: International Monetary Fund, 1998, pp. 63-67.

Ellerman, David, *Helping People Help Themselves: From the World Bank to an Alternative Philosophy of Development Assistance*, Ann Arbor, MI: University of Michigan Press, 2005.

Endnotes and Aaron Benanav, 'Misery and Debt: On the Logic and History of Surplus Populations and Surplus Capital', *Endnotes*, No. 2, Glasgow: Benn & Bain, 2010, pp. 20-51.

Erlanger, Steven, 'Sarkozy stresses global financial overhaul'. *New York Times*, 26 September 2008.

Esaiasson, Peter, *Metodpraktikan: konsten att studera samhälle, individ och marknad*, Stockholm: Norsteds Juridik, 2002.

Escritt, Thomas, 'Struggle to restore credibility after the crisis', *Financial Times*, 4 December 2009.

Esping-Andersen, Gøsta, *The Three Worlds of Welfare Capitalism*, Cambridge: Polity, 1990.

Eurequal, *The State of Inequality in the Central and Eastern Europe: Desk Research on Hungary*, Oxford: Eurequal, 2006.

EWI, ‘The Decades of Making the World a Safe and Better Place’, *East-West Institute* (EWI), 2013. Available on: http://www.ewi.info/30 (last accessed on: 6 November 2013).

EY, ‘The Central and Eastern European Automotive Market’, 2013. Available on: http://www.ey.com/GL/en/Industries/Automotive/The-Central-and-Eastern-European-automotive-market---Country-profile--Hungary (last accessed on: 31 July 2013).

Eyal, Gil, Iván Szelényi, and Eleanor Townsley, ‘The Theory of Post-Communist Managerialism’, *New Left Review*, 1997, Vol. 1, No. 222, pp. 60-92.

— *Making Capitalism Without Capitalists: Class Formation and Elite Struggles in Post-Communist Central Europe*, London: Verso, 1998.

Fáy, László, *Ha majd a böseg kosarából…*, Budapest: Belvárosi Könyvkiadó, 1997.

Fazekas, Károly, *The Impact of Foreign Direct Investment Inflows on Regional Labour Markets in Hungary*, Working Paper 2000/8, Budapest: Labour Research Department, Institute of Economics, Hungarian Academy of Social Sciences, 2000, pp. 1-35.

Fejtő, Francois, *A History of the People's Democracies*, London: Pall Mall Press, 1971.

Ferguson, James, ‘The Uses of Neoliberalism’, *Antipode*, 2010, Vol. 41, No. 1, pp. 166-184.

Figyelő, ‘A Széles birodalom’, 9 October 2005. Available on: http://fn.hir24.hu/gazdasag/2005/10/04/szeles_birodalom/ (last accessed on: 31 July 2013).

Financial Research Institute, ‘Introducing the Financial Research Plc.’. Available on: http://www.penzugykutato.hu/en/node/25 (last accessed on: 23 March 2012).

Financial Times, ‘Setting a Fast Pace for Hungary and Europe: Profile, MATAV’, 8 October 1999.

— ‘Hungary Blunders’ (editorial), 20 July 2010.

Fink, Philipp, ‘FDI-led Growth and Rising Polarisations in Hungary: Quantity at the Expense of Quality’, *New Political Economy*, 2006, Vol. 11, No. 1, pp. 47-72.

Fischer, Mark, *Capitalist Realism: Is There No Alternative?,* Winchester, UK: Zero Books, 2009.

Fischer, Stanley, Ratna Sahay, and Carlos Vegh, 'From Transition to Market: Evidence and Growth Prospects,' in *Lessons from the Economic Transition: Central and Eastern Europe in the 1990s*, edited by Salvatore Zecchini, London: OECD and Kluwer Academic Publishers, 1998, pp. 79–101.

Fleck, Zoltán et al., 'Vélemény Magyarország Alaptörvényéről', *Élet és Irodalom*, Vol. 55, No. 26, 11 June 2011.

Follah, Eric and Christoph Schult, 'Media Law Outrage: Hungary's "Orbanization" is Worrying Europe', *Der Spiegel*, 28 December 2010.

Fóti, Klára (ed.), *Alleviating Poverty: Analysis and Recommendations. Human Development Report for Hungary, 2000-2002*, Budapest: Institute for World Economics of the Hungarian Academy of Sciences and United Nations Development Programme (UNDP), 2003.

Fourcade-Gourinchas, Marion and Sarah L. Babb, 'The Rebirth of the Liberal Creed: Paths to Neoliberalism in Four Countries', *American Journal of Sociology,* 2002, Vol. 108, No. 3, pp. 533-579.

Fowkes, Ben, *The Post-Communist Era. Change and Continuity in Eastern Europe*, Basingstoke: Macmillan Press, 1999.

Földes, György, *Az eladósodás politikatörténete, 1957-1986.* Budapest: Maecenás Könyvkiadó, 1995.

Földes István, 'A tennikészek, az aggódók és a csodavárók', *Népszabadság*, 25 December 1966.

Frangakis, Marica, 'Europe's Financial Systems under Pressure', in *Global Finance and Social Europe*, edited by John Grahl, Cheltenham: Edward Elgar, 2009, pp. 53-90.

Frank, Andre G., *Capitalism and Underdevelopment in Latin America*, New York, NY: Monthly Review Press, 1966.

— *Dependent Accumulation and Underdevelopment*, New York, NY: Monthly Review Press, 1978.

— *ReOrient: The Global Economy in the Asian Age*, Berkeley, CA: University of California Press, 1998.

Freedom House 'Hungary', in *Freedom in the World 2013*, Washington, DC: Freedom House, 2013. Available on: http://www.freedomhouse.org/report/freedom-world/2013/hungary (last accessed on: 28 December 2013).

Friedman, Milton, *The Tyranny of the Status Quo*, San Diego, CA: Harcourt Brace Jovanovich, 1984.

— *Two Lucky People: Memoirs*, Chicago, IL: University of Chicago Press, 1998.

— *Capitalism and Freedom*, Chicago, IL: University of Chicago Press, 2002.

Friedman, Thomas L., *The World is Flat: A Brief History of the Twenty-first Century*, New York, NY: Farrar, Straus & Giroux, 2005.

Friedrich, Carl J., 'The Political Thought of Neo-Liberalism', *The American Political Science Review*, 1955, Vol. 49, No. 2, pp. 509-525.

Frydman, Robert and Andrzej Rapaczynski, *Privatization in Eastern Europe: Is the State Withering Away?*, Budapest: Central University Press, 1994.

Fukuyama, Francis, 'The End of History?', *The National Interest,* Summer 1989.

— *The End of History and the Last Man*, London: Penguin Books, 1992.

Gács, János, 'Output decline and the demise of the CMEA and the USSR: the case of Hungary', *Empirica*, 1994, Vol. 21, No. 1, pp. 83-104.

— 'Structural change and catching up: the experience of ten candidate countries', in *Economic convergence and divergence in Europe. Growth and regional development in an enlarged European Union*, edited by Gertrude Tumpel-Gugerell and Peter Mooslechner, Cheltenham: Edward Elgar, 2003.

Galasi, Péter and István Gábor, *A 'második' gazdaság. Tények és hipotézisek*, Budapest: Közgazdasági és Jogi Könyvkiadó, 1982.

Galbraith, John Kenneth, *The New Industrial State,* New York, NY: Houghton Mifflin, 1967.

Gamble, Andrew, 'Neo-Liberalism', *Capital & Class*, 2001, No. 75, pp. 127-134.

Ganev, Venelin I., 'The "triumph of neoliberalism" reconsidered: critical remarks on ideas-centered analyses of political and economic change in post-communism', *East European Politics and Societies*, 2005, Vol. 19, No. 3, pp. 343-378.

Garton Ash, Timothy, *The Polish Revolution: Solidarity, 1980-1982*, London: Granta Books, 1991.

Gazda, Albert and Marianna Mucsányi, 'Együtt kell élni politikai ellenfeleinkkel', interview with Viktor Orbán, *Világgazdaság*, 17 December 1999.

Gazsó, Tibor and István Stumpf (eds.), *A jóléti rendszerváltás csődje: a Gyurcsány-kormány első éve*, Budapest: Századvég Kiadó, 2005.

Gazsó, Tibor, András Giró-Szász, and István Stumpf (eds.), *Ígéretek sodrásában: a Medgyessy-kormány első éve*, Budapest: Századvég Kiadó, 2003.

Genov, Nikolai, *Global Trends in Eastern Europe*, Aldershot: Ashgate, 2010.

Gerő, Ernő, *The Position of the Hungarian National Economy in 1952 and the Tasks in its Development: A Report*, Budapest: Hungarian Bulletin, 1952.

Gerschenkron, Alexander, *Economic Backwardness in Historical Perspective*, Cambridge, MA: Harvard University Press, 1962.

Gill, Stephen (ed.), *Gramsci, Historical Materialism and International Relations*, Cambridge: Cambridge University Press, 1993.

— 'Globalisation, Market Civilisation and Disciplinary Neoliberalism', *Millennium: Journal of International Studies*, 1995, Vol. 24, No. 3, pp. 399-423.

— 'European Governance & New Constitutionalism: EMU & alternatives to disciplinary neo-liberalism in Europe,' *New Political Economy*, 1998, Vol. 3, No. 1, pp. 5-26.

— 'Constitutionalising Capital: EMU and Disciplinary Neo-Liberalism', in Andreas Bieler and Adam D. Morton (ed.) *Social Forces in the Making of the New Europe*, Basingstoke: Palgrave, 2001, pp. 47-69.

GoH, *Az Új Egyensúly programja, 2006-2008*, Budapest: Government of Hungary, 2006. Available on: http://www.boon.hu/2006/06/Az__j_Egyens_ly_programja.pdf (last accessed on: 24 November 2013).

— *A Nemzeti Együttműködés Programja*, Budapest: Government of Hungary, 22 May 2010.

— 'Magyarország jobban teljesít', Budapest: Government of Hungary, 2013. Available on: http://jobbanteljesit.kormany.hu/ (last accessed on: 18 January 2014).

Gouldner, Alvin W., *The Future of Intellectuals and the Rise of the New Class,* New York, NY: Seabury Press, 1979.

Gowan, Peter, 'Western Economic Diplomacy and the New Eastern Europe', *New Left Review*, 1990, Vol. 1, No. 182, pp. 63-84.

— 'Neo-Liberal Theory and Practice for Eastern Europe', *New Left Review*, 1995, Vol. 1, No. 213, pp. 3-60.

— *The Global Gamble: Washington's Faustian Bid for World Dominance,* London: Verso, 1999.

— 'Crisis in the Heartland. Consequences of the New Wall Street System', *New Left Review*, 2009, Vol. 2, No. 55, pp. 5-25.

Gramsci, Antonio, *Selections from the Prison Notebooks*, edited and translated by Quintin Hoare and Geoffrey N. Smith, London: Lawrence & Wishart, 1973.

— *Quaderni del Carcere*, 4 Volumes, edited by Valentino Gerratana, Turin: Giulio Einaudi, 1975.

— *Selections from Political Writings, 1910–1920*, edited and translated by Quintin Hoare and John Matthews, London: Lawrence & Wishart, 1977.

— *Further Selections from the Prison Notebooks*, London: Lawrence & Wishart, 1995.

Granick, David, 'The Hungarian Economic Reform', *World Politics*, 1973, Vol. 25, No. 3, pp. 414-429.

Greskovits, Béla, *The Political Economy of Protest and Patience: East European and Latin American Transformations Compared,* Budapest: Central European University Press, 1998.

— 'Hungary's post-communist development in comparative perspective', in *Liberalization and its consequences: A comparative perspective on Latin America and Eastern Europe*, edited by Werner Baer and Joseph L. Love, Cheltenham: Edward Elgar, 2000, pp. 126-149.

— 'Brothers-in-arms or rivals in politics? Top politicians and top policy-makers in the Hungarian transformation', in *Reforming the State: Fiscal and Welfare Reform in Post-Socialist Countries*, edited by János Kornai, Stephan Haggard, and Robert R. Kaufman, New York, NY: Cambridge University Press, 2001, pp. 111-141.

Gwertzman, Bernard and Michael Kaufman, *The Collapse of Communism*, New York, NY: Random House, 1990.

HAEF, 'Hungarian-American Enterprise Fund – 4th Annual Report', Budapest and Washington, DC: HAEF, 1993.

HAESF, 'History of the Hungarian American Enterprise Scholarship Fund (HAESF)', 2013. Available on: http://www.haesf.org/about_haesf/history.html (last accessed on: 27 November 2013).

Hall, Peter A. and David Soskice (eds.), *Varieties of Capitalism: The Institutional Foundations of Comparative Advantage*, Oxford: Oxford University Press, 2001.

Hamar, Judit, 'Regional Effects of FDI-inflows in Hungary', *Acta Oeconomica*, 1999, Vol. 50, No. 1-2, pp. 169-190.

Hancké, Bob, Martin Rhodes, and Mark Thatcher (eds.), *Beyond Varieties of Capitalism: Conflict, Contradictions, and Complementarities in the European Economy*, Oxford: Oxford University Press, 2007.

Hankiss, Elemér, *East European Alternatives*, Oxford: Clarendon Press, 1990.

Hanley, Eric, Lawrence King, and István Tóth János, 'The State, International Agencies, and Property Transformation in Postcommunist Hungary', *The American Journal of Sociology*, 2002, Vol. 108, No. 1, pp. 129-167.

Haraszti, Miklós, *A Worker in a Worker's State*, London: Penguin, 1977.

Harding, Robin, 'Quantitative easing explained', *Financial Times*, 3 November 2010.

Hardy, Jane, *Poland's New Capitalism*, London: Pluto Press, 2009.

— 'Crisis and Recession in Central and Eastern Europe', *International Socialism*, 2010, No. 128, pp. 111-129.

Hardy, Jane and Adrian Budd, 'China's Capitalism and the Crisis', *International Socialism*, 2012, No. 133.

Hare, Paul, Hugo Radice and Nigel Swain (eds.), *Hungary, a Decade of Economic Reform,* London: Allen & Unwin, 1981.

Harman, Chris, 'Philosophy and revolution', *International Socialism*, 1983, No. 21.

— *Class Struggles in Eastern Europe, 1945-1983*, London: Bookmarks, [1974]/1988.

— 'The Storm Breaks', *International Socialism*, 1990, Vol. 2, No. 46, pp. 3-93.

— 'The State and Capitalism Today', *International Socialism*, 1991, Vol. 2, No. 51, pp. 3-57.

— 'Theorising Neoliberalism', *International Socialism*, 2007, Vol. 2, No. 117.

— *Zombie Capitalism: Global crisis and the relevance of Marx*, London: Bookmarks, 2009.

Harvey, David, *The new imperialism,* Oxford: Oxford University Press, 2003.

— *Spaces of global capitalism. Towards a theory of uneven geographical development,* London: Verso, 2006.

— *A Brief History of Neoliberalism*, Oxford: Oxford University Press, 2007.

Havrylyshyn, Oleh, *Divergent Paths in Post-Communist Transformation: Capitalism for All or Capitalism for the Few?*, Basingstoke: Palgrave, 2006.

Hayek, Friedrich A. von, *The Road to Serfdom*, London: Ark Paperbacks, [1944]/1986.

Haynes, Mike, 'Class and Crisis: the Transition in Eastern Europe', *International Socialism*, 1992, Vol. 2, No. 54, pp. 45-104.

— 'Class and crisis in Eastern Europe' in *Marxism and the New Imperialism*, edited by Alex Callinicos, London: Bookmarks, 1994.

— 'Marxism and the Russian Question in the Wake of the Soviet Collapse', *Historical Materialism*, 2002, Vol. 10, No. 4, pp. 317-362.

— ‘Rejoinder to Chattopadyay’, *Historical Materialism*, 2004, Vol. 12, No. 2, pp. 129-148.

— ‘Hungary: Workers’ Councils against Russian Tanks’, *International Socialism*, 2006, No. 112.

Haynes, Mike and Remy Husan, ‘Market Failure, State Failure, Institutions, and Historical Constraints in the East European Transition’, *Journal of European Area Studies*, 2002, Vol. 10, No. 1, pp. 105-129.

Héthy, Lajos, ‘Új vonások a vállalati munkaügyi kapcsolatokban’, *Társadalmi Szemle,* 1984, Vol. 49, pp. 66-67.

— ‘Social Dialogue in Hungary: Its Rise and Decline’, *South-East European Review of Labour and Social Affairs*, Special Issue: ‘The Political, Economic and Social Development of Hungary During the Last Twelve Years’, 2001, pp. 55-70.

Heti Világgazdaság, ‘Kész a Reformszövetség programja: 1-2 ezer milliárdos adó-csökkentés’, 11 February 2009. Available on: http://hvg.hu/gazdasag/20090211_reformszovetseg_program_adocsokkentes (last accessed on: 18 December 2013).

— ‘Az 500 legnagyobb árbevételü hazai cég listája’, 20 January 2010.

Híd-csoport, ‘Híd a közeli jövőbe (100 nap gazdasági programja)’, *Közgazdasági Szemle*, 1990, Vol. 37, No. 4, pp. 442-458.

Hieronymi, Otto, *Economic Policies for the New Hungary: Proposals for a Coherent Approach*, Columbus, OH: Battelle Press, 1990.

HITA, ‘The Automotive Industry in Hungary: Engine of Growth’, Hungarian Investment and Trade Agency (HITA), 2007. Available on: http://www.yumpu.com/en/document/view/5914885/engine-of-growth (last accessed on: 31 July 2013).

Holman, Otto, ‘Integrating Eastern Europe: EU expansion and the double transformation in Poland, the Czech Republic, and Hungary’, *International Journal of Political Economy*, 1998, Vol. 28, No. 2, pp. 12-43.

— ‘The Enlargement of the European Union Towards Central and Eastern Europe: the Role of Supranational and Transnational Actors’, in *Social Forces in the Making of the New Europe. The restructuring of European Social Relations in the Global Political Economy*, edited by Andreas Bieler and Adam David Morton, London: Palgrave, 2001, pp. 161-184.

Holmstrom, Nancy and Richard Smith, ‘The Necessity of Gangster Capitalism: Primitive Accumulation in Russia and China”, *Monthly Review*, 2000, Vol. 51, No. 9.

Horn, Gyula, *Azok a kilencvenes évek*, Budapest: Kossuth Könyvkiadó, 1999.

Horváth, István et al., *Dunaferr Dunai vasmű krónika*, Dunaújváros: Dunatáj Kiadó, 2000.

Howell, Chris, ‘Review: “And Then There Was One?”: Varieties of Capitalism’, *Comparative Politics*, 2003, Vol. 36, No. 1, pp. 103-124.

Hung, Ho-Fung, ‘America’s Head Servant? The PRC’s Dilemma in the Global Crisis’, *New Left Review*, 2009, Vol. 2, No. 60.

Hunya, Gábor, ‘Foreign Direct Investment and Privatisation in Central and Eastern Europe’, *Communist Economies and Economic Transformation,* 1992, Vol. 4, No. 4, pp. 501-511.

— (ed.), *Integration through Foreign Direct Investment: Making Central European Industries Competitive*, Northampton, MA: Edward Elgar, 1999.

IMF, *Annual Report 1992*, Washington, DC: International Monetary Fund, 1992.

— *Good Governance: the IMF’s Role*, Washington, DC: International Monetary Fund, 1997.

— ‘Hungary: Selected Issues’, IMF Country Report No. 03/125, May 2003, Washington, DC: International Monetary Fund, 2003.

— *World Economic Outlook*, *October 2007*, Washington, DC: International Monetary Fund, 2007.

— *World Economic Outlook*, *April 2008*, Washington, DC: International Monetary Fund, 2008.

— *World Economic Outlook*, *April 2009*, Washington, DC: International Monetary Fund, 2009.

— *World Economic Outlook*, *April 2010*, Washington, DC: International Monetary Fund, 2010.

— ‘The Credit Boom in the EU New Member States: Bad Luck or Bad Policies?’. IMF WP/10/130, prepared by Bas B. Bakker and Anne-Marie Gulde, May 2010, Washington, DC: International Monetary Fund, 2010.

Index.hu, ‘Médiabirodalmat épít Széles Gábor’, 15 September 2005. Available on: http://index.hu/gazdasag/magyar/szelm050915/ (last accessed on: 31 July 2013).

Inzelt, Éva, ‘White collar crime during the political and economic transition in Hungary’, *US-China Law Review*, 2011, Vol. 8, No. 2, pp. 352-379.

Jacoby, Wade, ‘Managing globalization by managing Central and Eastern Europe: the EU’s backyard as threat and opportunity’, *Journal of European Public Policy*, 2010, Vol. 17, No. 3, pp. 416-432.

Jaksity, György, 'Van egy árnyékkormány, úgy hívják, devizaárfolyam', in *Álomcsőd. Interjúk a válságról*, edited by József P. Martin and Iván Várkonyi, Budapest: Alinea Kiadó, 2010, pp. 89-102.

James, C.L.R., *State Capitalism and World Revolution*, Detroit, MI: Facing Reality, 1969.

Janos, Andrew C., *East Central Europe in the Modern World. The Politics of the Borderlands from Pre- to Post communism,* Stanford, CA: Stanford University Press, 2000.

Jeffries, Ian, *Socialist economies and the transition to the market: a guide*, London: Routledge, 1993.

Jessop, Bob, 'Regulation theory: the state of the art', *New Political Economy*, 2002, Vol. 7, No. 3, pp. 463-472.

Jobbik, *Radical Change: A Guide to Jobbik's Parliemantary Electoral Manifesto For National Self-determination and Social Justice*, Budapest: Jobbik Foreign Affairs Committee, 2010.

Kádár, János, *Válogatott beszédek és cikkek*, *1957-1974*, Budapest: Kossuth Könyvkiadó, 1975.

Kalecki, Michal, *The Last Phase in the Transformation of Capitalism,* New York, NY: Monthly Review Press, 1972.

Kalotay, Kálmán and Gábor Hunya, 'Privatization and FDI in Central and Eastern Europe', *Transnational Corporations*, 2000, Vol. 9, No. 1, pp. 39-66.

Katzenstein, Peter J., *Small States in World Markets: Industrial Policy in Europe*, Ithaca, NY: Cornell University Press, 1985.

Kék Szalag Bizottság, A *Kék Szalag Bizottság gazdasági programjavaslata: Magyarország a szabadság és a gazdasági átalakulás utján*, Budapest: Közgazdasági és Jogi Könyvkiadó, 1990.

Kemény, István, 'A nem regisztrált gazdaság Magyarországon', in *Szociológiai írások*, edited by *id*., Budapest: Replika Kör, 1992, pp. 219-252.

Kéri, László, *A rendszerváltás krónikája*, *1988-2009*, Budapest: Kossuth Kiadó and Népszabadság, 2010.

Kester, Eddy, 'Manufacturing: Hungary's auto sector quietly goes on growing', *Financial Times*, 6 October 2011.

Keynes, John M., *The General Theory of Employment, Interest and Money*, London: Macmillan, [1936]/1960.

Kidron, Michael, *Western Capitalism since the War*, London: Weidenfeld & Nicolson, 1968.

King, Lawrence, 'Postcommunist Divergence: A Comparative Analysis of the Transition to Capitalism in Poland and Russia', *Studies in Comparative International Development*, 2002, Vol. 37, No. 3, pp. 3-34.

King, Lawrence and Balázs Váradi, 'Beyond Manichean Economics: Foreign Direct Investment and Growth in the Transition from Socialism to Capitalism', *Communist and Post-Communist Studies*, 2002, Volume 35, pp. 1-21.

Király, Béla K., 'The Hungarian Army under Soviet Control', in *20th Century Hungary and the Great Powers*, edited by Ignác Romsics, New York, NY: Columbia University Press, 1995, pp. 285-306.

Kiss, János P., 'Industrial Mass Production and Regional Differentiation in Hungary', *European Urban and Regional Studies*, 2001, Vol. 8, No. 4, pp. 321-328.

Klein, Naomi, *The Shock Doctrine: the Rise of Disaster Capitalism*, London: Allen Lane, 2007.

— 'Wall Street Crisis Should be for Neoliberalism what Fall of Berlin Wall was for Communism', lecture at University of Chicago, IL, 6 October 2008. Available on: http://www.stwr.org/globalization/wall-street-crisis-should-be-for-neoliberalism-what-fall-of-berlin-wall-was-for-communism.html (last accessed on: 27 December 2013).

Knell, Mark S., Martin Srholec, and Jan Ernst Fagerberg, 'The Competitiveness of Nations: Why Some Countries Prosper While Others Fall Behind', *World Development*, 2007, Vol. 35, No. 10, pp. 1595-1620

Kogut, Bruce and J. Muir MacPherson, 'The Decision to Privatize: Economists and the Construction of Ideas and Policies', in *The Global Diffusion of Markets and Democracy,* edited by Beth A. Simmons, Frank Dobbin, and Geoffrey Garrett, Cambridge: Cambridge University Press, 2007, pp. 104-140.

Kolodko Grzegorz W., *From Shock to Therapy: The Political Economy of Postsocialist Transformation*, Oxford: Oxford University Press, 2000.

Korbonski, Andrzej, 'Political Aspects of Economic Reforms in Eastern Europe', in *Economic Development in the Soviet Union and Eastern Europe*, Vol. 1, edited by Zbigniew M. Fallenbuchl, London: Praeger, 1975.

Korkut, Umut, *Liberalization Challenges in Hungary. Elitism, Progressivism, and Populism*, New York, NY: Palgrave Macmillan, 2012.

Kornai, János, *Over-centralization in Economic Administration: A Critical Analysis Based on Experience in Hungarian Light Industry*, Oxford: Oxford University Press, [1957]/1959.

— *Economics of Shortage*, Oxford: North Holland, 1980.

— ‘The Hungarian Reform Process: Visions, Hope, and Reality’, *Journal of Economic Literature*, 1986, Vol. 24, pp. 1687-1737.

— *The Road to a Free Economy. Shifting from a Socialist System: The Example of Hungary*, London: W. W. Norton, [1989]/1990.

— *The Socialist System: The Political Economy of Communism*, Oxford: Clarendon, 1992.

— ‘Transzformációs visszaesés. Egy általános jelenség vizsgálata a magyar fejlődés példáján’, *Közgazdasági Szemle*, 1993, Vol. 40, No. 7-8, pp. 569-599.

— ‘Adjustment without Recession: A Case Study of Hungarian Stabilization’, in *Lessons from the Economic Transition: Central and Eastern Europe in the 1990s*, edited by Salvatore Zecchini, Dordrecht: Kluwer Academic Publishers, 1997, pp. 123-151.

— ‘The Great Transformation of Central Eastern Europe: Success and Disappointment’, *Economics of Transition*, 2006, Vol. 14, No. 2, pp. 207-244.

Kovács, Árpád, ‘Összekeverték a dodzsemet a tankerhajóval’, in *Álomcsőd. Interjúk a válságról*, edited by József P. Martin and Iván Várkonyi, Budapest: Alinea Kiadó, 2010, pp. 103-116.

Körösényi, András, *A magyar politikai rendszer*, Budapest: Osiris Kiadó, 2002.

Köves, András, *The CMEA Countries in the World Economy: Turning Inwards or Turning Outwards*, Budapest: Akadémiai Kiadó, 1985.

— ‘Gazdaság és gazdaságpolitika Bokros után’, *Társadalmi Szemle*, 1996, Vol. 51, No. 8-9, pp. 5-20.

Kozul-Wright, Richard and Paul Rayment, *The Resistable Rise of Market Fundamentalism: Rethinking Development Policy in an Unbalanced World*, London: Zed Books, 2007.

Krugman, Paul, *End this Depression Now!*, New York, NY: W.W. Norton, 2012.

KSH, *Hungary Population Census 2011*, Hungarian Central Statistics Office (KSH), 2011. Available on: http://www.ksh.hu/nepszamlalas/tablak_demografia (last accessed on: 11 December 2013).

Kuhn, Thomas, *The Structure of Scientific Revolutions*, Chigaco, IL: University of Chicago Press, 1962.

Kulish, Nicholas, ‘Hungary’s Premier Offers to Resign’, *New York Times*, 21 March 2009.

Ladányi, János, ‘Patterns of residential segregation and the Gypsy minority in Budapest’, *International Journal of Urban and Regional Research*, 1993, Vol. 17, No. 1, pp. 30-41.

— ‘Residential Segregation among Social and Ethnic Groups in Budapest during the Post-Communist Transition’, in *Of States and Cities: The Partitioning of Urban Space*, edited by Peter Marcuse and Ronald van Kampen, Oxford: Oxford University Press, 2002, pp. 170-182.

Laki, László, *Rendszerváltás, avagy a “nagy átalakulás”*, Budapest: Napvilág Kiadó, 2009.

Laki, Mihály, ‘Az ellenzéki pártok gazdasági elképzelései 1989-ben’, *Közgazdasági Szemle*, 2000, Vol. XLVII, March 2000, pp. 230-249.

Lane, David, ‘Post-State Socialism: A Diversity of Capitalisms?’, in *Varieties of Capitalism in Post-Communist Countries*, edited by *id.* and Martin Myant, London: Palgrave Macmillan, 2007.

Lange, Peter, ‘Semiperiphery and core in the European context: reflections on the postwar Italian experience’ in *Semiperipheral Development*, edited by Giovanni Arrighi, Beverly Hills, CA: Sage, 1985, pp. 179-214.

Lavigne, Marie, *International Political Economy and Socialism,* Cambridge: Cambridge University Press, 1991.

Lebor, Adam, ‘New Labour is Still Cool – In Hungary’, *New Statesman*, 15 May 2006.

Lengyel, György and Zsolt Rostoványi (eds.), *The Small Transformation: Society, Economy and Politics in Hungary and the New European Architecture*, Budapest: Akadémiai Kiadó, 2001.

Lengyel, László, ‘Adalékok a Fordulat és Reform történetéhez’, *Medvetánc*, 1987, No. 2, pp. 131-163.

— Két gazdász portréja: Varga István és Cs. Szabó László eltérő pályaíve’, in *Korunkba zárva*, edited by *id*., Budapest: Pénzügykutató Rt., 1994.

— *Pretoriánusok kora*, Budapest: Kalligram Kiadó, 2011.

Lenin, Vladimir I., *Imperialism: The Highest Stage of Capitalism*, London: Junius, [1916]/1996.

Lewis, Charles P., *How the East was Won: The Impact of Multinational Companies on Eastern Europe and the Former Soviet Union*, Basingstoke: Palgrave, 2005.

Linden, Marcel van der, ‘The “Law” of Uneven and Combined Development: Some Underdeveloped Thoughts’, *Historical Materialism*, 2007, Vol. 15, No. 1, pp. 145-165.

— *Western Marxism and the Soviet Union: A Survey of Critical Theories and Debates since 1917*, Chicago, IL: Haymarket Books, 2009.

Lipietz, Alain, *Mirages and Miracles: The Crisis of Global Fordism*, London: Verso, 1987.

Lipton, David and Jeffrey Sachs, 'Creating a Market Economy in Eastern Europe: The Case of Poland', *Brookings Papers on Economic Activity*, 1990, No. 1, pp. 75-147.

List, Friedrich G., *The National System of Political Economy*, Philadelphia, PA: JB Lippincott & Co, 1856.

Lomax, Bill, *Hungary 1956,* London: Allen and Busby, 1976.

Loránt, Károly, 'A Magyarország eladósódásával kapcsolatos legfontosabb tudnivalok' (unpublished manuscript), 2008.

Macartney, Huw, 'Variegated Neo-liberalism: Transnationally Oriented Fractions of Capital in EU Financial Market Integration', Review of International Studies, 2009, Vol. 35, No. 2, pp. 451-480.

Maddison, Angus, 'The Nature and Functioning of European Capitalism: A Historical and Comparative Perspective', Valedictory Lecture at University of Groningen, 1 October 1997, published by *Banca Nazionale del Lavoro Quarterly Review*, December 1997.

Magyar Nemzet, 'Az MSZMP KB állásfoglalása a gazdasági-társadalmi kibontakozás programjáról', 4 July 1987, pp. 1-2.

Mandel, Ernest, *Late Capitalism,* London: Humanities Press, 1975.

Mankiw, Gregory N., 'Review of: *Reinventing the Bazaar*, by John McMillan', *Journal of Economic Literature*, 2003, Vol. 41, No. 1, pp. 256-257.

Marer, Paul, 'The Global Economic Crises: Impacts on Eastern Europe', *Acta Oeconomica,* 2010, Vol. 60, No. 1, pp. 3-33.

Marsh, Virgina, 'Hungarian Coalition Left Exposed', *Financial Times*, 21 September 1995.

— 'Hungary: Austerity has paid off', *Financial Times*, 8 May 1998.

Martin, József P. and Iván Várkonyi, *Álomcsőd. Interjúk a válságról*, Budapest: Alinea Kiadó, 2010.

Marx, Karl, 'Marx to Ruge', in *Letters from the Deutsch-Französische Jahrbücher,* 1843. Available on: http://www.marxists.org/archive/marx/works/1843/letters/43_09.htm (last accessed on: 31 November 2013).

— *The Eighteenth Brumaire of Louis Bonaparte*, in *Karl Marx and Friedrich Engels: Selected Works,* Moscow/London: Progress Publishers and Lawrence & Wishart, [1851-1852]/1968, pp. 93-171.

— *Critique of the Gotha Programme*, in *Karl Marx and Friedrich Engels: Selected Works,* Moscow/London: Progress Publishers and Lawrence & Wishart, [1875]/1968, pp. 297-317.

— *The Class Struggles in France, 1848 to 1850*, in *Selected Works,* Vol. 1, Moscow: Progress Publishers, [1850]/1969.

— *Capital. Volume 1*, London: Penguin Classics, 1990.

— *Capital. Volume 3*, London: Penguin Classics, 1991.

— *Capital, Volume 2*, London: Penguin Classics, 1992.

Marx, Karl and Friedrich Engels, *The Communist Manifesto*, Oxford: Oxford University Press, [1848]/1992.

Matolcsy, György, 'Defending the Cause of Spontaneous Reform of Ownership', *Acta Oeconomica*, 1990, Vol. 42, No. 1, pp. 1-22.

— 'Kiigazítás recesszióval: kemény költségvetési és puha piaci korlát', *Közgazdasági Szemle*, 1997, Vol. 44, No. 9, pp. 782-798.

— *Élő emlékeink: a Széchenyi Terv világa*, Budapest: Válasz Könyvkiadó, 2002.

Mayr, Walter, 'The Goulash Archipelago: EU Remains Silent as Hungary Veers Off Course', *Der Spiegel*, 19 August 2011.

McCracken, Grant, *The Long Interview*, Beverly Hills, CA: Sage, 1988.

Medgyesi, Márton, 'A jövedelmek eloszlása az EU országaiban', in *Társadalmi Riport 2008*, edited by Tamás Kolosi and György I. Tóth, Budapest: TÁRKI, 2008, pp.148-167.

Medián, 'Apadó Fidesz-előny', 13 December 2006. Available on: http://www.median.hu/object.104f145f-98ae-4962-856a-bef6acb40b2e.ivy (last accessed on: 12 September 2014).

— 'Van még lejjebb?', 18 March 2009.

Mihályi, Péter, 'The Evolution of Hungary's Approach to FDI in Post-communist Privatization', *Transnational Corporations*, 2001, Vol, 10, No. 3, December, pp. 61-74.

Milanovic, Branko'Explaining the Growth in Inequality during the Transition', *World Bank Working Paper Series,* No. 1935, 1998, pp. 1-51.

Miller, James E. and Glenn W. LaFantasie (eds.), *Foreign Relations of the United States, 1964-1968, Volume XVII: Eastern Europe*, Washington, DC: United States Government Printing Office, 1996.

Miller, James E., Douglas E. Selvage and Laurie Van Hook (eds.), *Foreign Relations of the United States, 1969-1976. Volume XXIX: Eastern Europe, Eastern Mediterranean, 1969–1972*, Washington, DC: United States Government Printing Office, 2008.

Mirowski, Philip, 'Postface', in *The Road from Mont Pelerin: The Making of the Neoliberal Thought Collective*, edited by Philip Mirowski and Dieter Plehwe, Cambridge, MA: Harvard University Press, 2009, pp. 417-455.

Mirowski, Philip and Dieter Plehwe (eds.), *The Road from Mont Pelerin: The Making of the Neoliberal Thought Collective*, Cambridge, MA: Harvard University Press, 2009.

Mises, Ludwig von, 'Die Wirtschaftsrechnung im sozialistischen Gemeinwesen', *Archiv für Sozialwissenschaften*, 1920, Vol. 47, pp. 86-101. Available on: http://docs.mises.de/Mises/Mises_Wirtschaftsrechnung.pdf (last accessed on: 28 December 2013).

MMI, 'The MMI Top 50 for 2012', *Manufacturing Market Insider* (MMI), 2012. Available on: http://www.mfgmkt.com/mmi-top-50.html (last accessed on: 31 July 2013).

MNB, *Foreign Direct Investment in Hungary, 1995-2003*, Budapest: National Bank of Hungary, 2003.

Mocsáry, József, 'Visszapillantás a privatizációra', *Eszmélet*, 2001, Vol. 13, No. 52, pp. 4-39.

Mokrzycki, Edmund and Christopher B.A. Bryant (eds.), *The New Great Transformation?: Change and Continuity in East-Central Europe*, London: Routledge, 1994.

MOMA, 'A MOMA célkitűzései', Budapest: *Modern Magyarország Mozgalom* (MOMA), 2013. Available on: http://www.moma.hu/rolunk/celjaink/#rtop (last obtained on: 4 November 2013).

Mommen, André, 'Magyarország neoliberális forradalma. A kapitalista globalizáció siker-történelme?', *Eszmélet*, 2004, No. 63, pp. 159-176.

Morlang, Diana, 'Hungary: Socialists Building Capitalism', in *The Left Transformed in Post-Communist Societies: The Cases of East-Central Europe, Russia, and Ukraine*, edited by Jane L. Curry and Joan B. Urban, Lanham, Maryland: Rowman & Littlefield, 2003, pp. 61-98.

Morton, Adam D., 'Historicizing Gramsci: Situating Ideas In and Beyond Their Context', *Review of International Political Economy*, 2003, Vol. 10, No. 1, pp. 118-146.

— *Unravelling Gramsci: Hegemony and Passive Revolution in the Global Political Economy*, London: Pluto Press, 2007.

— 'The Continuum of Passive Revolution', *Capital & Class*, 2010, Vol. 32, No. 3, pp. 315-342.

— *Revolution and State in Modern Mexico: The Political Economy of Uneven Development,* Lanham, MD: Rowman & Littlefield, 2011.

MSZMP, *A Gazdasági Mechanizmus Reformja: A Magyar Szocialista Munkáspárt Központi Bizottsága 1966 május 25-27 ülésének anyaga*, Budapest: MSZMP, 1966.

— 'Az MSZMP KB gazdasági bizottságának állásfoglalása', *Közgazdasági Szemle*, 1987, Vol. 34, pp. 664-670.

MTI Econews, 'Government Discusses Property Policy Guidelines for 1991', 3 December 1990.

— 'Proposal on Privatization Strategies in Hungary', 3 June 1991.

— 'EBRD-Hungary on its Economic Policies', 9 April 1995.

Mudge, Stephanie L., 'What is neo-liberalism?', *Socio-Economic Review,* 2008, Vol. 6, No. 4, pp. 703-731.

Murrell, Peter, 'Evolutionary and Radical Approaches to Economic Reform', *Economcis of Planning*, 1992, Vol. 25, No. 1, pp. 79-95.

— 'How Far has the Transition Progressed?', *Journal of Economic Perspectives*, 1996, Vol. 10, No. 2, pp. 25-44.

Myant, Martin and Jan Drahokoupil, *Transition Economies: Political Economy in Russia, Eastern Europe, and Central Asia*, Hoboken, NJ: Wiley, 2011.

— 'Transition Economies after the Crisis of 2008: Actors and Policies', *Europe-Asia Studies*, 2013, Vol. 65, No. 3, pp. 373-382.

Mykhnenko, Vlad, 'Strengths and weaknesses of 'weak' coordination: economic institutions, revealed comparative advantages, and socio-economic performance of mixed market economies in Poland and Ukraine', in *Beyond Varieties of Capitalism: Conflict, Contradictions, and Complementarities in the European Economy,* edited by Bob Hancké, Martin Rhodes, and Mark Thatcher (eds.), Oxford: Oxford University Press, 2007, pp. 351-378.

Mykhnenko, Vlad and Kean Birch, 'Conclusion: The End of an Economic Order?, in *The Rise and Fall of Neoliberalism: The Collapse of an Economic Order?*, edited by *id.*, London: Zed Books, 2010.

Nadler, John, 'Is Hungary the Financial Crisis' Next Iceland?', *Time Magazine*, 24 March 2009.

Nagy, Pongrác, *From Command to Market Economy in Hungary under the Guidance of the IMF*, Budapest: Akadémiai Kiadó, 2003.

Napi Gazdaság, 'A 100 leggazdagabb magyar', 2010.

Napi.hu, 'Drámai adatok Magyarországról – így terjed a szegénység', 14 August 2014. Available on: http://www.napi.hu/magyar_gazdasag/dramai_adatok_magyarorszagrol_igy_terjed_a_szegenyseg.585336.html (last accessed on: 23 August 2014).

Nee, Victor and David Stark (eds.), *Remaking the Economic Institutions of Socialism: China and Eastern Europe*, Standford, CA: Stanford University Press, 1989.

Niederhauser, Emil, 'Habsburg monarchia vagy önállóság?', in *Közgyűlési előadások*, *Vol. 4*, edited by Ferenc Glatz, Budapest: Magyar Tudományos Akadadémia, 2001.

Népszabadság, 'Rossz az irány – mondja a magyarok 91 százaléka!', 18 March 2009.

— 'Tizenahat éves csúcson a munkanélküliség!', 29 March 2010.

New York Times, 'Hungary: Tycoon Picked as New Premier', 26 August 2004. Available on: http://www.nytimes.com/2004/08/26/world/world-briefing-europe-hungarytycoon-picked-as-new-premier.html (last accessed on: 26 July 2013).

NMHH, 'About the National Media and Infocommunications Authority', 2012. Available on: http://english.nmhh.hu/tart/index/1100/About_us (last accessed on: 28 December 2013).

North, Douglass C., *Institutions, Institutional Change and Economic Performance*, Cambridge: Cambridge University Press, 1990.

— 'Economic Performance Through Time', Prize Lecture to the Memory of Alfred Nobel, 9 December 1993. Available on: http://www.nobelprize.org/nobel_prizes/economics/laureates/1993/north-lecture.html (last accessed on: 8 January 2013).

Nove, Alec, *The Economics of Feasible Socialism,* Boston, MA: G Allen & Unwin, 1983.

Nölke, Andreas and Arjan Vliegenthart, 'Enlarging the Varieties of Capitalism: The Emergence of Dependent Market Economies in East Central Europe', *World Politics*, 2009, Vol. 61, No. 4, pp. 670-702.

Nyers, Rezső, 'Reform of the Economic Mechanism', *The New Hungarian Quarterly,* 1965, Vol. 20, pp. 9-14.

Obama, Barack, 'Remarks by President Obama and the British Prime Minister Gordon Brown After Their Meeting', 3 March 2009, Washington, DC: Office of the Press Secretary, The White House.

OECD, *OECD Economic Outlook 1991*, 2 volumes, Paris: OECD Publishing, 1991.

— *OECD Economic Surveys 1998-1999: Hungary*, Paris: OECD Publishing, 1999.

— *OECD Reviews of Foreign Direct Investment: Hungary*, Paris: OECD Publishing, 2000.

— *OECD Economic Surveys 2002: Hungary*, Paris: OECD Publishing, 2002.

— *Divided We Stand: Why Inequality Keeps Rising*, Paris: OECD Publishing, 2011.

— *OECD Economic Survey 2014: Hungary*, Paris: OECD Publishing, 2014.

Offe, Claus, *Varieties of transition: the East European and East German experience,* Cambridge: Polity Press, 1996.

Oltay, Edith, *Fidesz and the Reinvention of the Hungarian Centre-Right*, Budapest: Századvég Kiadó, 2012.

Onaran, Özlem, 'From transition crisis to the global crisis: Twenty years of capitalism and labour in the Central and Eastern EU new member states', *Capital & Class*, 2011, Vol. 35, No. 2, pp. 213-231.

Orbán, Viktor, 'Magyarország jövője jövőre', speech at the 15th Summer University and Youth Camp in Băile Tuşnad (*Tusnádfürdő*), Romania, 23 July 2005. Available on: http://mno.hu/migr/magyarorszag-jovoje-jovore-555408 (last accessed on: 13 December 2013).

— 'Forradalom történt a szavazófülkékben', speech at Vörösmarty Square, Budapest, Hungary, 25 April 2010. Available on: http://www.miniszterelnok.hu/beszed/forradalom_tortent_a_szavazofulkekben (last accessed on: 28 December 2013).

— 'Új kezdet', speech at the 'Polgári Piknik' in Kötcse, Hungary, 30 May 2010. Available on: http://www.miniszterelnok.hu/cikk/uj_kezdet (last accessed on: 28 December 2013).

— 'A nyugati tipusú kapitalizmus került válságba', speech at the 21st Summer University and Youth Camp in Băile Tuşnad (*Tusnádfürdő*), Romania, 24 July 2010. Available on: http://www.orbanviktor.hu (last accessed on: 9 October 2013).

— 'Növelni kell az Európán kivüli magyar exportot', *MTI*, 17 October 2013.

Orenstein, Mitchell A., *Out of the Red: Building Capitalism and Democracy in Post-communist Europe*, Ann Arbor, MI: University of Michigan Press, 2001.

— 'What happened in East European (political) economies? A balance sheet of neo-liberal reform', *East European Politics & Societies*, 2009, Vol. 23, No. 4, pp. 479-490.

Origo.hu, 'A 100 leggazdagabb magyar', 2002. Available on: http://www.origo.hu/uzletinegyed/hirek/2002111541tol.html (last accessed on: 20 May 2009).

— 'Díjat kapott Washingtonban Simor András', 10 October 2010. Available on: http://www.origo.hu/uzletinegyed/hirek/20101010-euromoney-a-felzarkozo-europai-regioban-az-ev-jegybankara-lett-simor.html (last accessed on: 18 January 2014).

— '800 millióért tudtuk meg, hogy Magyarország jobban teljesít', 2 January 2014. Available on: http://www.origo.hu/itthon/20140102-800-milliobol-tudtuk-meg-hogy-magyarorszag-jobban-teljesit.html (last accessed on: 18 January 2014).

Ormos, Mária et al., *Törvénytelen Szocializmus. A Tényfeltáró Bizottság Jelentése*, Budapest: Zrinyi Kiadó, 1991.

Ost, David, *Solidarity and the Politics of Anti-politics: Opposition and Reform in Poland since 1968*, Philadelphia, PA: Temple University Press, 1990.

Overbeek, Henk, *Global capitalism and national decline: the Thatcher decade in perspective,* London: Unwin Hyman, 1990.

— 'Transnational class formation and concepts of control: towards a genealogy of the Amsterdam project in international political economy', *Journal of International Relations and Development*, 2004, Vol. 7, No. 2, pp. 113-141.

Pach, Zsigmond P., *Az eredeti tökefelhalmozás Magyarországon*, Budapest: SZIKRA, 1952.

Palasik, Mária, *Chess Game for Democracy: Hungary Between East and West, 1944-1947*, Montreal: McGill-Queen's Press, 2011.

PANAC, 'About us: Pannon Automotive Cluster', 2013. Available on: http://www.autocluster.hu/content_5-en.html (last accessed on: 22 January 2013).

Panitch, Leo and Sam Gindin, 'Euro-Capitalism and American Empire', in *Varieties of Capitalism, Varieties of Approaches*, edited by David Coates, Basingstoke: Palgrave Macmillan, 2005, pp. 135-159.

Pavlinek, Petr, 'Foreign direct investment in the Czech Republic', *The Professional Geographer*, 1998, Vol. 50, No. 1, pp. 71-85.

— 'Regional development implications for foreign direct investment in Central Europe', *European Urban and Regional Studies*, 2004, Vol. 11, No. 1, pp. 47-70.

Peck, Jamie, 'Remaking laissez-faire', *Progress in Human Geography*, 2008, Vol. 32, No. 1, pp. 3-43.

— *Constructions of Neoliberal Reason*, Oxford: Oxford University Press, 2010.

Peck, Jamie and Adam Tickell, 'Neoliberalizing Space', in *Spaces of Neoliberalism: Urban Restructuring in North America and Western Europe,* edited by Neil Brenner and Nik Theodore, Hoboken, NJ: Wiley, 2002, pp. 33-57.

Peck, Jamie, Nik Theodore, and Neil Brenner, 'Postneoliberalism and its Malcontents', *Antipode*, 2009, Vol. 41, No. 1, pp. 94-116.

Péter, György, 'A gazdaságosság jelentőségéről és szerepéről a népgazdaság tervszerü irányitásában', *Közgazdasági Szemle*, 1954, Vol. 1, No. 3, pp. 300-324.

Pető, Iván and Szakács Sándor, *A hazai gazdaság négy évtizedének története, 1945-1985*, Budapest: Közgazdasági és Jogi Könyvkiadó, 1985.

Petschnig, Mária Zita, *Örökségtől örökségig: A magyar gazdaság 1990-1994,* Budapest: Századvég Kiadó, 1994.

Pew Research Center, *Two Decades After the Wall's Fall: End of Communism Cheered but Now with More Reservations*, Washingtond, DC: The Pew Research Center, 2009.

Phillips, Richard, Jeffrey Henderson, László Andor, and David Hulme, 'Usurping Social Policy: Neoliberalism and Economic Governance in Hungary', *Journal of Social Policy*, 2006, Vol. 35, No. 4, pp. 585-606.

Pickel, Andreas, 'Neoliberalism, Gradualism, and Some Typical Ambiguities in the Transformation Debate', *New Political Economy*, 1997, Vol. 2, No. 2, pp. 221-235.

Pijl, Kees van der, *The Making of an Atlantic Ruling Class*, London: Verso, 1984.

— *Transnational Classes and International Relations*, London: Routledge, 1998.

Pirani, Simon, *Change in Putin's Russia: Power, Money, and People*, London: Pluto Press, 2009.

Pittaway, Mark, 'The Social Limits of State Control: Time, the Industrial Wage Relation, and Social Identity in Stalinist Hungary, 1948-1953', *Journal of Historical Sociology,* 1999, Vol. 12, No. 3, pp. 271-301.

— 'Hungary', in *Developments in Central and East European Politics, Vol. 3*, edited by Stephen White, Judy Batt, and Paul G. Lewis, Basingstoke: Palgrave Macmillan, 2003, pp. 57-73.

— *Eastern Europe, 1939-2000*, London: Hodder Arnold, 2004.

— 'Accomodation and the Limits of Economic Reform: Industrial Workers during the Making and Unmaking of Kádár's Hungary', in *Arbeiter im Staatsozialismus: Ideologische Anspruch und Soziale Wirklichkeit*, edited by Peter Hübner, Christoph Kleβmann, and Claus Tenfelde, Köln: Böhlau Verlag, 2005, pp. 453-471.

— ‘The Revolution and Industrial Workers: the Disintegration and Reconstruction of Socialism, 1953-1958’, *Hungarian Studies Review*, 2007, Vol. 34, No. 1-2, pp. 115-154.

— *The workers' state: industrial labor and the making of socialist Hungary, 1944-1958*, Pittsburgh, PA: Pittsburgh University Press, 2012.

Pitti, Zoltán, ‘Európai felzárkózás és/vagy versenyképességünk javítása’, lecture at the annual meeting of the Association of Hungarian Economists (*Magyar Közgazdasági Tanács*, MKT), 19 November 2002. Available on: http://www.mkt.hu/docs/2002-12-09-17-14-42-versenykepesseg.pdf (last accessed on: 28 December 2013).

Plehwe, Dieter, Bernhard Walpen, and Gisela Neunhöffer (eds.), *Neoliberal Hegemony: A Global Critique*, London: Routledge, 2006.

Pogátsa, Zoltán, *Éltanúló válságban. Állam és piac a rendszerváltás utáni Magyar-országon*, Budapest: Figyelő, 2007.

— ‘Hungary: From Star Transition Student to Backsliding Member State’, *Journal of Contemporary European Research*, 2009, Vol. 5, No. 4, pp. 597-613.

Polanyi, Karl, *The Great Transformation: The Political and Economic Origins of Our Time*, Boston, MA: Beacon Press, [1944]/2001.

Politics.hu, ‘SZDSZ backs György Surányi for PM’, 25 March 2009. Available on: http://www.politics.hu/20090325/szdsz-backs-gyorgy-suranyi-for-pm/ (last accessed on: 16 October 2013).

— ‘Gyurcsány announces departure from Socialists, formation of new “Western, civic centre-left” party’, 22 October 2011. Available on: http://www.politics.hu/20111022/gyurcsany-announces-departure-from-socialists-formationof-new-western-civic-center-left-party/ (last accessed on: 28 December 2013).

— ‘LMP splits over cooperation with Together 2014’, 28 January 2013. Available on: http://www.politics.hu/20130128/lmp-splits-over-cooperation-with-together 2014-caucus-to-remain-intact/ (last accessed on: 28 December 2013).

Pontusson, Jonas, ‘Varieties and Commonalities of Capitalism’, in *Varieties of Capitalism, Varieties of Approaches*, edited by David Coates, Basingstoke: Palgrave Macmillan, 2005, pp. 163-188.

Poulantzas, Nicos, *The Poulantzas Reader*, edited by James Martin, London: Verso, 2008.

Pozsgay, Imre and Tibor Polgár, *A rendszerváltás (k)ára: nyílt párbeszéd a sorsfordító évtizedről,* Budapest: Kossuth Kiadó, 2003.

Privatization Barometer, ‘Hungary’, 2012. Available on: http://www.privatizationbarometer.net/atlas.php?id=18&mn=IN (last accessed on: 29 January 2013).

Rachman, Gideon, ‘Hungarian Lessons for a World Crisis’, *Financial Times*, 11 May 2009.

Rádai, Eszter, *Pénzügyminiszterek reggelire,* Budapest: Helikon Kiadó, 2001.

— ‘Elsiették a támadást’, interview with Ferenc Gyurcsány, *Mozgó Világ*, December 2003.

Radice, Hugo, ‘Halfway to paradise? Making sense of the semiperiphery’, in *Global-ization and the ‘New’Semi-Peripheries*, edited by Owen Worth and Phoebe Moore. Basingstoke: Palgrave, 2009.

Radio Free Europe, *RFE/RL Hungarian Situation Reports*: ‘Price Increases: Old Problems and Old Solutions’, 22 July 1987, pp. 17-19.

Radosevic, Slavko and Deniz E. Yoruk, ‘Videoton: the growth of enterprise through entrepreneurship and network alignment’, Working Paper No. 3, London: University College London, Center for the Study of Economic and Social Change in Europe, 2001.

Rainer, János (ed.), *A Monori tanácskozás, 1985. június 14-16,* Budapest: 1956-os Intézet, 2005.

— *Imre Nagy: A Biography,* London: I.B. Tauris, 2009.

— *Magyarország története. A Kádár-korszak 1956–1989*, Budapest: Kossuth Kiadó, 2010.

— *Bevezetés a Kádárizmusba*, Budapest: 1956-os Intézet–L’Harmattan Kiadó, 2011.

Rákosi, Mátyás, *Válogatott beszédek és cikkek*, Budapest: SZIKRA, 1955.

Ránki, György and Iván T. Berend, *Hungary: a century of economic development*, New York, NY: Barnes & Noble, 1974.

— *Underdevelopment and economic growth: studies in Hungarian social and economic history,* Budapest: Akadémiai Kiadó, 1979.

— *The European periphery and industrialization, 1780-1914*, New York, NY: Cambridge University Press, 1982.

Research on Money and Finance (RMF), *The Eurozone Crisis: Beggar Thyself and Thy Neighbour*, RMF occasional report, prepared by Costas Lapavitsas et al., March 2010.

Resnick, Stephen A. and Richard D. Wolff, ‘State Capitalism in the USSR: A High-Stakes Debate’, *Rethinking Marxism*, 1993, Vol. 6, No. 2, pp. 46-67.

— *Class Theory and History: Capitalism and Communism in the USSR,* London: Routledge, 2002.

Resolution of the Students of the Budapest University of Technology and Economics [*Budapesti Műszaki és Gazdaságtudományi Egyetem*]: 'Sixteen Political, Economic, and Ideological Points', Budapest, 22 October 1956. Available on: http://www.fordham.edu/halsall/mod/1956hungary-16points.html (last accessed on: 24 October 2013).

Révész, Sándor, 'A Fidesz átmenetele – 2006', *Népszabadság*, 4 June 2012.

Ripp, Zoltán, *Rendszerváltás Magyarországon, 1987-1990*, Budapest: Napvilág Kiadó, 2006.

Robinson, Anthony and Virgina Marsh, 'Tough medicine puts new life in Hungary', *Financial Times*, 31 October 1995.

Romsics, Ignác, *Hungary in the Twentieth Century*, Budapest: Corvina Kiadó, 1999.

— 'Mérlegen a magyar XX. század', *Élet és Irodalom*, Vol. 54, No. 9, 5 March 2010.

Róna, Péter, 'Monetáris maszlag', *Népszava*, 29 June 2009.

Rosenberg, Justin, 'Globalization Theory: A Post Mortem', *International Politics*, 2005, Vol. 42, No. 1, pp. 2-74.

Rosenberg, Justin and Alex Callinicos, 'Uneven and Combined development: the Social-relational Substratum of "the International"?: An Exchange of Letters', *Cambridge Review of International Affairs*, 2008, Vol. 21, No. 1, pp. 77-112.

Roubini, Nouriel, 'Hungary faces enormous economic hurdles', *USA Today*, 22 June 2006.

Rupert, Mark, *Producing Hegemony: The Politics of Mass Production and American Global Power*, Cambridge: Cambridge University Press, 1995.

— *Ideologies of Globalization: Contending Visions of a New World Order*, London: Routledge, 2000.

— 'Hegemony and the Far Right: Policing Dissent in Imperial America', in *The Longue Durée of the Far-Right: An International Historical Sociology*, edited by Rick Saull, Alex Anievas, Neil Davidson, and Adam Fabry, London: Routledge, 2014.

Rupp, Kálmán, *Entrepreneurs in Red. Structure and Organizational Innovation in the Centrally Planned Economy.* Albany, NY: Suny Press, 1983.

Saad-Filho, Alfredo, 'Marxian and Keynesian critiques of neoliberalism', in *The Socialist Register 2008*, Vol. 44, edited by Leo Panitch and Colin Leys, London: Merlin, 2009.

— ‘Neoliberalism in Crisis: A Marxist Analysis’, *Marxism 21*, 2010, Vol. 14, pp. 247-269.

Saad-Filho, Alfredo and Deborah Johnston (eds.), *Neoliberalism: A Critical Reader*. London: Pluto Press, 2005.

Sachs, Jeffrey, ‘What is to be done?’, *The Economist*, 13 January 1990, pp. 19-24.

— *Poland's Jump to the Market Economy*, Cambridge, MA: MIT Press, 1993.

— ‘Understanding “Shock Therapy”’, *Social Market Foundation Occasional Paper,* No. 7, London: Social Market Foundation, 1994.

Sas, Roland (pseudonym), ‘A Dimitrov téri fiúk’, *Élet és Irodalom*, 1989.

Sass, Magdolna, ‘The effectiveness of host country policy measures in attracting FDI: the case of Hungary’, in *The Development Dimension of FDI: Policy and Rulemaking Perspectives*, edited by Americo B. Zampetti and Torbjörn Fredriksson, Geneva: UNCTAD, 2003, pp. 49-58.

Scheppele, Kim L., ‘Hungary’s Free Media’, *New York Times*, 14 March 2012.

Schumpeter, Joseph A., *Capitalism, Socialism, and Democracy*, London: Unwin University, [1942]/1975.

Seleny, Anna, *The Political Economy of State-Society Relations in Hungary and Poland: from Communism to the European Union*. Cambridge: Cambridge University Press, 2006.

Selwyn, Ben, ‘An historical materialist appraisal of Friedrich List and his modern-day followers’, *New Political Economy*, 2009, Vol. 14, No. 2, pp. 157-180.

— ‘Trotsky, Gerschenkron and the political economy of late capitalist development’, *Economy & Society*, 2011, Vol. 40, No. 3, pp. 421-450.

Serenyi, Péter, ‘Rising in the East’, *Business Central Europe*, March 2001.

Seton-Watson, Hugh, *The East European Revolution*, Boulder, CO: Westview Press, 1985.

Shields, Stuart, ‘The “Charge of the Right Brigade”: Transnational Social Forces and the Neoliberal Configuration of Poland’s Transition’, *New Political Economy*, 2003, Vol. 8, No. 2, pp. 225-245.

— ‘Global Restructuring and the Polish State: Transition, Transformation, or Trans-nationalization?’, *Review of International Political Economy*, 2004, Vol. 11, No. 1, pp. 132-154.

— ‘Historicizing Transition: The Polish Political Economy in a Period of Global Structural Change – Eastern Europe’s Passive Revolution?’, *International Politics*, 2006, Vol. 43, No. 4, pp. 474-499.

— ‘Double the Shock, with Half the Therapy: Transnational Capital, Class Configuration and the Social Implications of Poland’s Ongoing Transition to a Market Economy’, *Competition and Change*, 2007, Vol. 11, No. 2, pp. 153-176.

— ‘How the East was Won: Globalisation, Transnational Social Forces and Poland’s Transition to a Market Economy’, *Global Society*, 2008, Vol. 22, No. 4, pp. 445-468.

— *The International Political Economy of Transition: Neoliberal Hegemony and Eastern Central Europe’s Transformation*, London: Routledge, 2012.

Shleifer, Andrei and Robert W. Vishny, *The Grabbing Hand: Government Pathologies and their Cures*, Cambridge, MA: Harvard University Press, 1998.

Síklaky, Iván et al., *Koncepció és Kritika. Vita Liska Tibor “szocialista vállalkozási szektor” javaslatáról*, Budapest: Magvető Kiadó, 1985.

Simor, András, ‘Hungary Says It’s Not Iceland’, *CNBC.com*, 2008. Available on: http://video.cnbc.com/gallery/?video=899424610 (last accessed on: 17 December 2013).

Smith, Adrian and Alena Rochovská, ‘Domesticating Neo-liberalism: Everyday Lives and the Geographies of Post-Socialist Transformations’, *GEOFORUM,* 2007, Vol. 38. No. 6, pp. 1163-1178.

Smith, Adrian and Judit Timár, ‘Uneven transformations: space, economy and society 20 years after the collapse of state socialism’, *European Urban and Regional Studies*, 2010, Vol. 17, No. 2, pp. 115-125.

Sommers, Jeffrey and Janis Berzins, ‘Twenty Years Lost: Latvia's Failed Development in the Post-Soviet World’, in *First the Transition, Then the Crash: Eastern Europe in the 2000s*, edited by Gareth Dale, London: Pluto Press, 2011, pp. 119-142.

Soros, George, *The Crisis of Global Capitalism: Open Society Endangered*, London: Little Brown, 1998.

— *Open Society: Reforming Global Capitalism*, New York, NY: Public Affairs, 2000.

Stalin, Josef, ‘Concerning Questions of Leninism’, 1926. Available on: http://www.marxists.org/reference/archive/stalin/works/1926/01/25.htm (last accessed on: 23 January 2014).

Stark, Antal, *Rögös úton. Nemzetgazdaságunk rendszerváltás elötti és utáni két évtizede*, Budapest: Akadémiai Kiadó, 2009.

Stark, David, ‘From System Identity to Organizational Diversity: Analyzing Social Change in Eastern Europe’, *Contemporary Sociology*, 1992, Vol. 21, No. 3, pp. 299-304.

— ‘Recombinant Property in East European Capitalism’, *American Journal of Sociology*, 1996, Vol. 101, No. 4, pp. 993-1027.

Stark, David and László Bruszt, *Postsocialist Pathways: Transforming Politics and Property in East Central Europe*, Cambridge: Cambridge University Press, 1998.

— ‘One Way or Multiple Paths: For a Comparative Sociology of East European Capitalism’, *American Journal of Sociology*, 2001, Vol. 106, No. 4, pp. 1129-1137.

Stiglitz, Joseph, *Whither Socialism?*, Cambridge, MA: MIT Press, 1994.

— *Whither Reform? Ten Years of the Transition*, paper prepared for the Annual Bank Conference on Development Economics, Washington, DC, 28-30 April 1999, Washington, DC: World Bank.

— *Economics of the Public Sector*, New York, NY: W. W. Norton, 2000.

— *Globalization and its Discontents*, London: Allen Lane, 2002.

— *Making Globalization Work*, London: Penguin Books, 2006.

— ‘The End of Neo-Liberalism?’*, Project Syndicate*, 2008. Available on: http://www.project-syndicate.org/commentary/the-end-of-neo-liberalism (last accessed on: 6 August 2013).

— *The Stiglitz Report: Reforming the International Monetary and Financial Systems in the Wake of the Global Crisis*, New York, NY: The New Press, 2010.

Sugar, Peter F., Péter Hanák, and Tibor Frank (eds.), *A History of Hungary*, Bloomington, IN: Indiana University Press, 1994.

Summers, Deborah, ‘No return to boom and bust: what Brown said when he was chancellor’, *The Guardian*, 11 September 2008.

Surányi, György, ‘Ne dőljünk be a divatoknak!’, in *Álomcsőd. Interjúk a válságról*, edited by József P. Martin and Iván Várkonyi, Budapest: Alinea Kiadó, 2010, pp. 133-148.

Swain, Geoffrey and Nigel Swain, *Eastern Europe since 1945*, London: Macmillan, 1993.

Swain, Nigel, *Collective Farms Which Work?*, Cambridge: Cambridge University Press, 1985.

— *Hungary: The Rise and Fall of Feasible Socialism*, London: Verso, 1992.

Sweezy, Paul, *The Theory of Capitalist Development*, New York, NY: Monthly Review Press, 1942.

Szalai, Erzsébet, *Gazdasági elit és társadalom a magyarországi újkapitalizmusban*, Budapest: Aula Kiadó, 2001.

— ‘Morális krízis vagy rendszerválság?’, *Élet és Irodalom*, Vol. 50, No. 43, 27 October 2006.

— *New Capitalism – And What Can Replace It*, Budapest: Pallas Kiadó, 2008.

— ‘A rendszerváltástól a rendszerválságig’, *Rednews*, 17 June 2010. Available on: http://www.rednews.hu/exkluziv/elmelet/szalai-erzsebet-a-rendszervaltastol-a-rendszervalsagig.html (last accessed on: 28 December 2013).

Szalavetz, Andrea, *Structural change – structural competitiveness,* Working Paper 155, Budapest: Institute of World Economics, Hungarian Academy of Sciences, 2005.

Szále, László, ‘A vezetői minőség forradalma’, interview with Béla Kádár, *Egyenlítő*, 2009, Vol. 7, No. 7-8.

Szamuely, László, *A Magyar közgazdaśagi gondolat fejlődése, 1954-1978: a szocialista gazdaság mechanizmusának kutatása,* Budapest: Közgazdasági és Jogi Könyvkiadó, 1986.

Szelényi, Iván, *Socialist Entrepreneurs*: *Embourgeoisement in Rural Hungary,* Madison, WI: University of Wisconsin Press, 1988.

— ‘Eastern Europe in an Epoch of Trenasition: Toward a Socialist Mixed Economy?’, in *Remaking the Economic Institutions of Socialism: China and Eastern Europe*, edited by Victor Nee and David Stark, Standford, CA: Stanford University Press, 1989, pp. 208-232.

— ‘Borongós’, *168 óra*, 2008, Vol. 21, No. 1-2. Available on: http://www.168ora.hu/velemeny/borongos-29300.html (last accessed on: 9 October 2013).

— ‘A globális pénzügyi válság és Közép Európa nyomorúsága’, *Népszabadság*, 21 March 2009.

Szelényi, Iván and Bill Martin, ‘The Three Waves of New Class Theories”, *Theory and Society,* 1988, Vol. 17, No. 5, pp. 645-667.

Szelényi, Szonja, ‘Social Inequality and Party Membership: Patterns of Recruitment into the Hungarian Socialist Workers’ Party’, *American Sociological Review*, 1987, Vol. 52, No. 5, pp. 559-573.

Szigeti, Péter, *Világrendszernézőben: globális ‘szabad verseny’ mint a világkapitalizmus jelenlegi stádiuma*, Budapest: Napvilág Kiadó, 2005.

— ‘Államszocialista kisérletek – történelmi tanulságok’, in *Államszocializmus: értelmezések, viták, tanulságok*, edited by László Krausz and Péter Szigeti, Budapest: L’Harmattan Kiadó/Eszmélet Alapítvány, 2007, pp. 13-52.

— ‘A magyarországi újkapitalizmus természete és helye a világrendszerben’, *Eszmélet*, 2010, Vol. 22, No. 88, pp. 63-79.

Szlajfer, Henryk, ‘Under the Military Dictatorship: between “Freeze Frame” and “Restoration”’, in Michael Bernhard and Henryk Szlajfer (eds.), *From the Polish Underground: Selections from Krytyka, 1978-1993*, University Park, PA: Pennsylvania State University Press, 1995.

Tamás, Gáspár M., ‘Vallásháború vagy osztályharc’, *Élet és Irodalom,* Vol. 50, No. 40, 6 October 2006.

— ‘Counter-revolution against a counter-revolution’, *Eurozine*, 2007. Available on: http://www.eurozine.com/articles/2007-09-18-tamas-en.html (last accessed on: 28 December 2013).

— ‘Képek Gyurcsány falán’, *Élet és Irodalom*, Vol. 51, No. 34, 24 August 2007.

— ‘A capitalism pure and simple’, *Left Curve*, 2008, No. 32, pp. 66-75. Available on: http://www.leftcurve.org/LC32WebPages/CapitalismPure.GMTamás.pdf (last accessed on: 28 December 2013).

— ‘Szürkület’, *Élet és Irodalom*, Vol. 52, No. 45, 7 November 2008.

— ‘Interview – Hungary: “Where We Went Wrong”’, *International Socialism*, 2009, No. 123, pp. 27-40.

— ‘Az antifasizmus jövője’, *Élet és Irodalom*, Vol. 54, No. 13, 2 April 2010.

— ‘Marx on 1989’, in *First the Transition Then the Crash: Eastern Europe in the 2000s*, edited by Gareth Dale, London: Pluto Press, 2011, pp. 21-45.

— ‘Az Európai Bizottság tévedése’, *Népszabadság*, 1 March 2012.

— ‘Az utolsó tengelyhatalom’, *Magyar Narancs*, No. 23, 6 June 2012. Available on: http://magyarnarancs.hu/publicisztika/az-utolso-tengelyhatalom-80383# (last accessed on 28 December 2013).

Tardos, Károly, *Felzárkózás vagy lemaradás?: beszélgetések a magyar gazdaságpolitika elmúlt húsz évéről,* Budapest: Gondolat Kiadó, 2010.

TÁRKI, *Hungary: Social Report 2004*, Budapest: TÁRKI, 2004.

Tarnói, Gizella, ‘Mindenki tudta hogy amit írunk, igaz’, interview with László Antal, *Mozgó Világ*, March 1990.

The Economist, ‘Hungary: Radical at last’, 1 April 1995, pp. 45-46.

— ‘Hungary: Knifeman knifed (Finance Minister Bokros resigns)’, 24 February 1996.

— ‘Viktor Orban, an Assertive Hungarian’, 28 February 2002. Available on: http://www.economist.com/node/1011129 (last obtained on 20 November 2013).

— ‘Revolving doors: A new prime minister steps up’, 26 August 2004.

— ‘Transformed: EU membership has worked magic in central Europe’, *Special report: the EU’s eastern borders*, 23 June 2005.

— ‘Hungary’s election: the re-election precedent’, 27 April 2006.

— ‘Debt sustainability: Not so risk free’, 11 February 2010.

— ‘Germany’s debt brake: Tie your hands, please’, 11 December 2011.

‘The Kupa Plan’, 1991. Available on: http://www.dtic.mil/dtic/tr/fulltext/u2/a344093.pdf (last accessed on: 6 November 2013).

Thelen, Kathleen, ‘The Paradox of Globalization: Labor Relations in Germany and Beyond’, *Comparative Political Studies*, 2003, Vol. 36, No. 8, pp. 859-888.

Thomas, Peter D., *The Gramscian Moment: Philosophy, Hegemony and Marxism*, Leiden: Brill, 2010.

Tikell, Adam and Jamie Peck, ‘Making global rules: Globalization or neoliberalization?’, in *Remaking the Global Economy*, edited by Jamie Peck and H-W Yeung, London: Sage, 2003, pp. 163-181.

Tőkés, Rudolf, *Hungary’s negotiated revolution: economic reform, social change, and political succession, 1957-1990*, Cambridge: Cambridge University Press, 1996.

Toporowski, Jan, ‘Neoliberalism: The Eastern European Frontier’, in *Neoliberalism: A Critical Reader*, edited by Alfredo Saad-Filho and Deborah Johnston, London: Pluto Press, 2005, pp. 215-221.

Torkos, Matild, ‘Titkos ügynök a kormány élén’, *Magyar Nemzet*, 18 June 2002. Available on: http://mno.hu/migr_1834/titkos-ugynok-a-kormany-elen-791262 (last accessed on: 26 July 2013).

Tosics, István, ‘Lakáspolitika – szociális várospolitika’, *Budapesti Negyed*, 2002, Vol. 8, No. 2, pp. 133-150.

Tóth, András, ‘The Failure of Social-Democratic Unionism in Hungary’, in *Workers after Workers’ States: Labor and Politics in Postcommunist Eastern Europe*, edited by Stephen Crowley and David Ost, Lanham, MD: Rowman & Littlefield, 2001, pp. 37-58.

Tóth, Csaba and Péter Virovácz, ‘Winners and Losers: An assessment of the Hungarian flat tax reform with microsimulation’, *Public Finance Quarterly*, 2013, Vol. 58, No. 4, pp. 369-385.

Trotsky, Leon, *The History of the Russian Revolution*, London: Pluto Press, [1934]/1977.

— *The Permanent Revolution* and *Results and Prospects*, London: Socialist Resistance Publishers, [1930/1906]/2007.

Tumpel-Gugerell, Gertrude and Peter Mooslechner (eds.), *Economic convergence and divergence in Europe. Growth and regional development in an enlarged European Union*, Cheltenham: Edward Elgar, 2003.

Turner, Rachel S., *Neo-Liberal Ideology: History, Concepts and Policies*, Edinburgh: Edinburgh University Press, 2008.

UNCTAD, *World Investment Report 1994*, New York, NY: UNCTAD, 1994.

— *World Investment Report 2003*, New York, NY: UNCTAD, 2003. Available on: http://unctad.org/en/Pages/Statistics.aspx/FDI (last accessed on: 12 December 2013).

— *World Investment Report 2005*, New York, NY: UNCTAD, 2005.

— *World Investment Report 2008*, New York, NY: UNCTAD, 2008.

USAID, 'The Enterprise Funds in Europe and Eurasia: Successes and Lessons Learned', 12 September 2013. Available on: http://www.usaid.gov/sites/default/files/documents/1863/EE_Enterprise_Funds LessonsLearned.pdf (last accessed on: 16 January 2014).

Válasz.hu, 'Az amerikai jegybankelnökkel jobban járnánk', 11 June 2010. Available on: http://valasz.hu/itthon/az-amerikai-jegybankelnokkel-jobban-jarnank-30019 (last accessed on: 12 September 2014).

Vanhuysse, Pieter, *Divide and Pacify*, Budapest: Central University Press, 2006.

Várdy, Steven B., 'The Impact of Trianon upon the Hungarian Mind: Irredentism and Hungary's Path to War', in *Hungary in the Age of Total War, 1938-1948*, edited by Nándor F. Dreisziger, Boulder, CO: Social Science Monographs, 1998, pp. 27-48.

Vass, Henrik (ed.), *A Magyar Szocialista Munkáspárt határozatai és dokumentumai 1967-1970,* Budapest: Kossuth Könyvkiadó, 1974.

— *A Magyar Szocialista Munkáspárt határozatai és dokumentumai 1985-1989*, Budapest: Interart Stúdió, 1994.

Videoton, 'Extract of annual business report for 2011', 2011. Available on: http://www.videoton.hu/images/excerpt_2011_eng.pdf (last accessed on: 31 July 2013).

Vigvári, András, 'Néhány adalék Magyarország külgazdasági sebezhetőségének okaihoz', *Eszmélet*, 2008, Vol. 20, No. 80.

Voszka, Éva, 'Centralization, Renetionalization and Redistribution: Government's Role in Changing Hungary's Ownership Structure', in *Strategic Choice and Path Dependency in Post-Socialism: Institutional Dynamics in the Transformation Process*, edited by Jerzy Hauser, Bob Jessop, and Klaus Jensen, Brookfield, VT: Edward Elgar, 1995, pp. 287-308.

Völgyes, Iván, 'Modernization, Stratification and Elite Development in Hungary', *Social Forces*, 1978, Vol. 57, No. 2, pp. 500-521.

Wallerstein, Immanuel, *The Modern World System: Capitalist Agriculture and the Origins of the European World Economy in the Sixteenth Century,* New York, NY: Academic Press, 1974.

— *The Modern World System, Vol. II: Mercantilism and the Consolidation of the European World Economy 1600-1750*, New York, NY: Academic Press, 1980.

— *The Modern World System, Vol. III. The Second Era of Great Expansion of the Capitalist World Economy, 1730-1840s*. San Diego, CA: Academic Press, 1989.

— *Historical Capitalism*, London: Verso, [1983]/1996.

— *World System Analysis. An Introduction*, Durham, NC: Duke University Press, 2006.

Weber, Max, *The Protestant Ethic and the Spirit of Capitalism*, Oxford: Blackwell, [1904-1905]/2002.

Wedel, Janine R., 'Rigging the US-Russian Relationship: Harvard, Chubais, and the Trans-identity Game', *Demokratizatsiya: The Journal of Post-Soviet Democratization,* 1999, Vol. 7, No. 4, pp. 469-500.

— *Collision and Collusion: The Strange Case of Western Aid to Eastern Europe*, Basingstoke: Palgrave Macmillan, 2001.

Weeks, John, *Capital and Exploitation*, London: Edward Arnold, 1981.

— 'The Expansion of Capital and Uneven Development on a World Scale', *Capital & Class*, 2001, Vol. 25, No. 2, pp 9-30.

Weiner, Tibor, 'Sztálinváros' in *Sztálinváros, Miskolc, Tatabánya: városépitésünk fejlődése*, edited by Aladár Sós, Budapest: Műszaki Könyvkiadó, 1959, pp. 17-88.

Weisbrot, Mark, 'To Viktor go the spoils: how Hungary blazes a trail in Europe', *The Guardian*, 9 August 2010.

Weyland, Kurt, 'Neoliberal Populism in Latin America and Eastern Europe', *Comparative Politics*, 1999, Vol. 31, No. 4, pp. 379-401.

WIIW, *Current Analyses and Forecasts 6*, 'Will Exports Prevail over Austerity?', prepared by Vasily Astrov, Mario Holzner, Gabor Hunya, Kazimierz Laski, Leon Podkaminer et al., July 2010, Vienna: Vienna Institute for International Economic Studies (WIIW).

Wilkinson, Richard, *The Impact of Inequality: How to Make Sick Societies Healthier*, London: Routledge, 2005.

Williamson, John, 'What Washington Means by Policy Reform', in *Latin American Adjustment: How Much has Happened*, edited by *id.*, Washington, DC: Institute for International Economics, 1990.

— *The Eastern Transition to a Market Economy: A Global Perspective*, London: Centre for Economic Perfomance, 1992.

Williamson, Oliver E., *The Economic Institutions of Capitalism*, New York, NY: The Free Press, 1985.

Wolff, Larry, *Inventing Eastern Europe: The Map of Civilization on the Mind of the Enlightenment*, Stanford, CA: Stanford University Press, 1994.

Worth, Owen, 'Whatever Happened to the Semi-Periphery?', in *Globalization and the 'New' Semi-Peripheries*, edited by Owen Worth and Phoebe Moore. Basingstoke: Palgrave, 2009.

Woodward, Susan, *Balkan Tragedy: Chaos and Dissolution After the Cold War*, Washington, DC: The Brookings Institute, 1995.

World Bank, *Hungary: Economic Developments and Reforms*, Washington, DC: World Bank, 1984.

— *Hungary: Structural reforms for sustainable growth,* Washington, DC: World Bank, 1995.

— *World Development Report: From Plan to Market*, New York, NY: Oxford University Press, 1996.

— *Hungary: On the Road to the European Union*, Washington, DC: World Bank, 1999.

— *Foreign Investment and Restructuring: The Evidence from Hungary*, World Bank Technical Paper No. 453, prepared by Bartolomej Kaminski and Michelle Riboud, Washington, DC: World Bank, 2000.

— 'Central Europe's Ireland? Interview with Hungary's Economy and Industry Minister', *Transition*, 2002, Vol. 13, No. 6, pp. 24-26.

— *Transition – The First Ten Years. Analysis and Lessons for Eastern Europe and the Former Soviet Union*, Washington, DC: World Bank, 2002.

— *Economic Growth in the 1990s: Learning from a Decade of Reform*, Washington, DC: World Bank, 2005.

— 'Overview of Europe and Central Asia (ECA) Region', September 2009.

— *Turmoil at Twenty: Recession, Recovery, and Reform in Central and Eastern Europe and the Former Soviet Union*, prepared by Pradeep Mitra, Marcelo Selowsky, and Juan Zalduendo, Washington, DC: World Bank, 2010.

Zhong, Raymond, 'The Descent of Hungary', *Wall Street Journal*, 22 March 2012.

Zizek, Slavoj, 'The Deadlock', public lecture at Brunel University, 29 February 2012.

Statistical Data

Eurostat Statistical Database. Available on: http://epp.eurostat.ec.europa.eu/portal/page/portal/statistics/search_database.

Hungarian Central Statistics Office (KSH) Statistical Database. Available on: http://www.ksh.hu/.

UNCTAD Statistical Database. Available on: http://unctad.org/en/Pages/Statistics.aspx.

World Bank, World Development Indicators. Available on: http://databank.worldbank.org/data/home.aspx.