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18. For example, Tomáš Sedláček or Pavel Kohout; blog.aktualne.centrum.cz/blogy/tomas-sedlacek.php?itemid=10013.
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24. Surprisingly, a majority of young people support the proposal for school fees, even though this affects them negatively and directly.
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10 From Poster Boy of Neoliberal Transformation to Basket Case: Hungary and the Global Economic Crisis*

Adam Fabry

INTRODUCTION

Hungary has for long been a poster boy of neoliberal transformation in Central and Eastern Europe (CEE). However, as the negative effects of the financial crisis started to be felt in 2008, its *bon renommé* in international policy-making and business circles quickly evaporated; indeed, the international business press singled it out as the 'black sheep' of the current crisis. This 'return to fame' stems from the fact that the signs generally associated with the global crisis – financial meltdown, falling levels of production, growing unemployment and social inequalities, widespread disillusionment and public anger (in the guise of rabid reactionary politics) – are all present in an exacerbated form in Hungary.

The first section of this chapter presents a chronology of the problems that the Hungarian economy has faced from 2007 until the present. Second, we present an overview and critique of the four narratives that have dominated mainstream discourse about the crisis in Hungary. We then proceed to outline the central features of an alternative interpretation, which builds on the insights of Marxian political economy, in particular Marx's law of value and Trotsky's theory of combined and uneven development. It depicts the crisis as the outcome of *external* pressures (a global crisis of capitalism) and *internal* pressures (contradictions inherent in Hungary's post-transformation capitalism), which together confront Hungary's economy and state. In conclusion, we argue that the current crisis

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in Hungary extends beyond the normal up- and downturns of the business cycle, revealing fundamental contradictions in Hungarian society itself.

AN ECONOMIC TSUNAMI SWEEPS DOWN THE DANUBE: A CHRONOLOGY OF HUNGARY'S CRISIS

The global crisis has evolved in three interdependent and mutually reinforcing ways. What started out in 2007 as a 'crisis in the heartland'[1] of global capitalism with the sub-prime mortgage crisis in the United States had, within a year, evolved into a global credit crunch, which at the time was estimated to cause the global economy losses of at least US$1 trillion.[2] The credit crisis subsequently spread to the 'real' economy. According to the International Monetary Fund (IMF), global output declined by 0.6 per cent in 2009.[3] Total write-downs on global exposures were estimated to reach US$4 trillion or more.[4] Since then some 'green shoots of recovery' have emerged in the world economy, especially in the emerging economies. However, the rebound seems so far to be slow and fragile and could quite conceivably see the world economy falling back into renewed recession.

First Wave: Storms Gathering around Central and Eastern Europe

The ten ex-command economies (EU-10) that joined the EU in 2004 and 2006 were hit by the global crisis in a succession of waves.[5] The first, which followed after the onset of the sub-prime mortgage crisis in the USA, was not perceived as a serious threat. Capital flows to the region had risen throughout most of the 2000s, contributing to a credit-led boom. From 2000 to 2007 a total of over US$305 billion of FDI poured into the EU-10.[6] As one of the leading reformers in the region, Hungary had been a prime recipient of funds, with cumulative FDI between 1989 and 2007 reaching nearly US$64 billion.[7]

However, before we take this figure as an indication of the inevitable flattening of the world brought about by corporate-led globalisation (to borrow a phrase from Thomas Friedman), these figures need to be put into perspective. In so doing, they illustrate what Bill Dunn has described as the 'enduring pertinence of geography' for capital accumulation.[8] Despite their year-on-year increase, total FDI flows to the EU-10 economies between 2000 and 2008 only represented 3.6 per cent of worldwide FDI flows.[9]

Having said that, the economies of Central and Eastern Europe (CEE) were in a sense becoming a 'destination of choice'[10] for capital. Between 2003 and 2007 the unweighted average of capital inflows (107 per cent of GDP) to the EU-10 (excluding Slovenia) was three times as high as in pre-crisis Indonesia, Philippines and Thailand (38 per cent of GDP in 1992).[11] The positive flow of foreign capital continued even when share prices of investment banks and hedge funds began to fall in the USA and Western Europe in late 2006.[12] For the credit bonanza in the region, no end was in sight.

No wonder, then, that the official view in policy-making circles and among international investors was that the sneeze in the US economy following the sub-prime mortgage crisis would not cause 'flu in the EU-10. Despite signs of difficulties looming, the dominant view about the economic prospects of CEE remained upbeat.[13] In autumn 2007 the IMF projected that average GDP growth in CEE would fall moderately, from 6.7 per cent in 2002–7 to 5 per cent in 2008–12. Hungary's decline was expected to be modest: down from 3.6 per cent in 2002–7 to 3.4 per cent in 2008–12.[14] However, with the onset of the second wave of the crisis following the collapse of Lehman Brothers in September 2008, these hopes quickly faded.

Second Wave: A Vulnerable Gazelle on the Savannah of Global Finance

The second wave of the crisis was less benign. As liquidity dried up in global financial markets, investors retreated to safer havens in the core capitalist states. Faced with this situation, the openness of the CEE economies turned out to be a recipe for disaster. The combination of relatively small economies (except 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. Its economic openness is extremely high: its proportion of trade in total GDP amounted to 161.4 per cent in 2008 (the highest in the EU-10) and 70 per cent of this trade went to advanced economies.[15] As a further indication of Hungary's embeddedness in the global economy, it ranks third in the world and highest within the region in terms of its transnationalisation index.[16]

Hungary's precarious position was made worse by what international investors perceived as the dire state of its public finances. If one looks closely, this fear appears exaggerated. While Hungary's consolidated government debt in 2007 (65.9 per cent) was higher than the average for the EU-10 (41.3 per cent), it was

not substantially above the average of the old EU-15 member states (60.4 per cent).[17] Indeed, many countries within the EU – including Greece (95.7 per cent), Germany (65 per cent), France (63.8 per cent), Italy (103.5 per cent) and Portugal (63.6 per cent) – had similar or higher levels of government debt. However, the differences between these countries and Hungary are that the former are larger in size and also benefited from longer maturity periods on their sovereign debt.[18] The weighted average of maturity on Hungary's sovereign debt was only 3.3 years – lower than all the countries listed above.[19]

Investors were also worried about the high credit levels of Hungarian households and the private sector. The level of private sector indebtedness stood at 67.6 per cent of GDP in 2008 (fourth highest of the EU-10), while household debt stood at 27.4 per cent 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, brought investors' worries about the state of the Hungarian economy towards boiling point.

These concerns boiled over in October 2008 when foreign investors sold more than US$2 billion of Hungarian government securities (nearly 5 per cent of Hungary's foreign-owned securities at the time) within a couple of days.[20] Government officials and policy-makers in Budapest now admitted that Hungary faced the threat of a run on the forint. The head of the Hungarian National Bank (HNB), András Simor, vividly depicted the gravity of the situation in an interview with TV channel CNBC when he compared Hungary's situation to lions' pursuit of gazelles on the savannah. Just as lions select slower, weaker and more vulnerable gazelles as their prey, 'speculative capital' attacks those countries that are at greatest risk.

Faced with this quagmire, the government in Budapest appealed for assistance from international lenders.[21] A bailout package of US$25.1 billion was provided, with the IMF providing two-thirds of the sum, the EU covering the majority of the remainder and the World Bank chipping in with a little more than US$1 billion. In return, the socialist minority government agreed to impose austerity measures, including savage welfare spending cuts and tax increases.[22]

Third Wave: The Crisis Hits Head On

The third wave of the crisis hit the EU-10 economies head on. According to a World Bank report, CEE economies were among

'the hardest hit by the ongoing global economic crisis'.[23] Table 10.1 sheds some light on the grim realities behind this statement.

Table 10.1 Selected Economic Indicators, end of 2009 (%)[24]

	GDP growth, at market prices	*Export of goods*	*Industrial production (except construction), gross value added at basic prices*	*Unemployment (registered)*
Bulgaria	–4.9	–10.8	–8.0	6.8
Czech Republic	–4.1	–14.6	–12.1	6.7
Estonia	–13.9	–23.0	–21.5	13.8
Hungary	–6.7	–18.7[a]	–17.7[a]	10.0
Latvia	–18.0	–10.7	–16.5	17.1
Lithuania	–14.7	–11.9	–13.2	13.7
Poland	1.7	–8.5	–3.7	8.2
Romania	–7.1	–3.3	–0.3	6.9
Slovakia	–4.8	–15.1	–18.2	12.0
Slovenia	–8.1	–18.1	–15.5	5.9
EU-10 average	–9.9	–13.5	–12.7	10.1
Selected comparators				
Germany	–4.7	–16.6	–16.7	7.8
Greece[b]	–2.0	–18.0	–0.4	9.5
Ireland	–7.6	–5.2	0.5	11.9
EU-27 average	–4.2	–14.4	–12.3	9.0
US	–2.6	N/A	N/A	9.3

a = Figures are from the Hungarian Central Statistics Office (KSH), 2010; b = Figures for Greece on GDP growth and industrial production are provisional.

As Table 10.1 reveals, the effects of the crisis have been varied.[25] Though not as badly hit as the Baltic States, Hungary was nonetheless hit hard by the global recession, with output contracting by 6.7 per cent in 2009.[26] However, it is important to remember that the Hungarian economy was deteriorating *before* 2009, with growth averaging 0.8 per cent in 2007 and 2008.[27] The impact of the crisis was aggravated by the contraction experienced by Hungary's primary export markets, in particular Germany. As a result, exports plummeted by 18.7 per cent in 2009 and industrial production by 17.7 per cent – the steepest decline since 1991. Manufacturing was particularly badly hit, falling by 18.4 per cent on an annual basis. Among the subsectors within manufacturing, automobile production experienced the most severe slump, decreasing by nearly 30 per cent on an annual basis. (Unlike the advanced economies,

the government in Budapest did not introduce a 'cash for clunkers' scheme to counterbalance the downturn in the automobile sector).

By now, Hungary's economic malaise was rapidly spilling over into the sphere of politics. In mid-April 2009, Ferenc Gyurcsány resigned as Prime Minister and was succeeded by Gordon Bajnai, former Minister of National Development and Economy and onetime business partner to Gyurcsány, who now took charge of a semi-technocratic government. Despite possessing virtually no popular support and notwithstanding signs of social and political instability – with fascist paramilitaries of the *Magyar Gárda* [Hungarian Guard] marching through the streets of the country terrorising the Roma population, gays and lesbians and 'communists' – the new government resolutely pressed ahead with the implementation of further austerity measures.

The combination of a global recession together with austerity proved to be a poisonous brew for ordinary citizens. By the end of 2009, unemployment stood at 10 per cent, the highest rate since the early 1990s. However, while already giving little reason to celebrate, this figure does not take into consideration the nearly 1.5 million jobs that had been shed in the 1990s, which contributed to chronically high underemployment; Hungary's employment rate stands at 55.4 per cent, well below the EU average of 64.8 per cent.[28]

As for those fortunate enough to have a job, the situation is hardly rosier. Capitalists have responded to the downturn by increasing the exploitation of workers. The country is turning into one of the worst places to work in the EU. Weekly working hours for full-time employees in 2009 stood at 40.1 hours, higher than the EU-27 and EU-15 averages of 39.3 and 38.9 hours respectively.[29] Real wages fell in 2007 by 4.6 per cent and, after a slight rise of 0.8 per cent in 2008, declined again in 2009 by 3.5 per cent.[30] At the same time, those at the top came out relatively unscathed from the crisis: the wealth of the ten richest Hungarians grew by HUF 124 billion (approximately US$557.5 million).[31]

NARRATING HUNGARY'S VULNERABILITY TO THE CRISIS

Having seen the speed at which Hungary found itself entangled by the crisis, we are forced to ask why it became so vulnerable once the crisis hit the region. In order to answer this question, journalists, policy-makers, businessmen and academics have provided a number of competing interpretations. As elsewhere, these arguments range from the simplistic and populist to the complex and specialised.[32]

Here, we focus on four distinct narratives, which have dominated mainstream discourse in Hungary.

1. Corrupt Politicians and Greedy Bankers Are to Blame

The speed at which the US sub-prime mortgages crisis triggered a global crunch left many of the world's financiers, regulators and politicians dumbfounded. For the average citizen it was met with a mix of anger and bewilderment. Apart from seeking to grapple with *how* this could happen, the question on 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.

In Hungary, this narrative places culpability for the crisis on 'corrupt communists and liberals' (e.g., MSZP or SZDSZ politicians) or 'greedy bankers' (in line with the endemic anti-Semitism in the region, these are covertly or even openly alluded to as Jews). 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 members of the business elite. 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, while Far Right forces (e.g., Jobbik) add a dose of anti-Semitism to the narrative.

It is not difficult to understand the attractiveness of these views when taking into consideration the miserable record of the ruling socialist-liberal coalition and their associated partners in the business elite during the years of the crisis. Aided by a plethora of media outlets, the right-wing opposition sought relentlessly to remind the Hungarian electorate about the culpability of the Centre-Left government. The right wing engaged in a conscious cultural and ideological battle, which has seen a drastic shift to the Right in the Hungarian media. Ranging from the conservative *Magyar Nemzet*, Hungary's most popular daily, through the programmes of *Hír TV*, the country's most popular news channel, to the Far Right views pumped out by the small media empire owned by Gábor Széles (one of the richest men in Hungary), right-wing ideas permeate much of the media landscape.

But the popularity of the 'corrupt politicians and greedy bankers' narrative is not simply the result of the dominance of the right-wing media. During Gyurcsány's incumbency, MSZP and SZDSZ politicians became increasingly synonymous with

corruption. Gyurcsány's own credibility has been in tatters ever since his infamous gaffe in September 2006, when, using particularly foul language, he admitted that his government had lied about the state of the economy in order to get elected.[33] The speech sparked massive anti-government protests (unprecedented since 1989) and violence broke out in Budapest on the evening of 18 September, when a small group of demonstrators (comprising Far Right groups and football ultras) broke into the offices of the Hungarian state television and set fire to it.

Support for the socialist-liberal coalition has been evaporating ever since. By the time of the general elections in April 2010, trust in socialist and liberal politicians was so low that the right-wing opposition could enjoy a comfortable return to power.

As for the bankers' greed, it is enough to invoke the name of HNB president András Simor in order to understand why this narrative strikes a chord with many ordinary citizens.[34] Simor's current salary, roughly US$460,000, is not only obscene compared to average Hungarian salaries, but also more than twice as much as Federal Reserve chairman Ben Bernanke. The fact that Simor was awarded the Central Banker of the Year in 2010 for Emerging Europe prize by the global finance journal *Euromoney* only adds insult to injury to those who already feel that the burdens of the crisis have not been shared equally.[35]

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-aggrandising 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 [only] serves to obscure a number of important factors [behind the crisis]'.[36] Quoting Castree again, it is also questionable whether greed is of much explanatory value, as it implies 'some transhistorical human impulse that threatens to manifest itself in the absence of proper checks'.[37] Nonetheless, the claim that corrupt politicians and greedy financiers were at fault for Hungary's economic malaise has gained a very considerable popular appeal.

2. Lax Regulatory Oversight

Once economic commentators, politicians and policy experts recovered from their initial shock at 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 both, by regulators worldwide enabled

finance to outgrow the constraints of the real economy. As the IMF put it, 'bad policies', 'overly expansionary macroeconomic settings and excessively optimistic views on prudential risks', aggravated the effects of the crisis in CEE.[38]

Here again, proponents can draw on a mass of empirical evidence. Examples of regulatory shortcomings – or in many cases a complete *lack* of regulation – were evident for years, globally as well as regionally. Governments and various regulatory institutions in CEE were well aware of the dangers of rapid credit growth 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 insufficient foreign exchange reserves in the central bank), as evidence of regulatory shortcomings.[39]

While 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'.[40] 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'.[41] However, to the misfortune of the CEE economies, by the time the IMF realised its mistakes, it was already too late.

For commentators who have maintained a critical stance towards neoliberalism, the global economic crisis seemed to offer a rare opportunity to break with the hegemony of neoliberal ideas and provide proposals for tackling regulatory shortcomings.[42] Building on the insights of Kenneth Galbraith, John Maynard Keynes and Hyman Minsky, these 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 (a 1933 Banking Act, which introduced banking reform), 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 creation of a Tobin tax on certain cross-border financial transactions.

It should, however, be pointed out that criticism of neoliberal policies is not monopolised by progressive forces. Indeed, in the contradictory reality of Hungarian post-transformation capitalism, neoliberal critique has increasingly become the territory of the Right. As we shall see, Orbán's right-wing government has taken the most concrete measures towards curbing the power of finance.

3. Western-style Capitalism is to Blame

The third argument has been voiced by those who trace the roots of the current crisis to the shortcomings of Anglo-Saxon capitalism. The focus here lies in how the belief in the 'hidden hand' of the market 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 in Hungary come in all political colours. One of the most renowned representatives of this view on the Left is Iván Szelényi, professor of sociology at Yale University. In 2008, when the global economic crisis was in its infancy, he passed a harsh judgement on Anglo-Saxon capitalism and its apologists in the post-Soviet Bloc:

> 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 1929–33 . . . 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 . . . 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.[43]

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.[44]

Proselytising about the return of the state was not restricted to left-wing intellectuals. One of the most vocal critics of Anglo-Saxon capitalism in Hungary has been none other than Prime Minister Orbán. In a speech delivered in July 2010, he spoke of the 'crisis of Western capitalism' 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.[45]

The new government has wasted little time in putting Orbán's words into action. In negotiations in summer 2010 with the IMF, the government, fearful of losing electoral support, refused the IMF's proposal to impose further budget deficit cuts and opted instead to seek funds directly from financial markets. The IMF and its acolytes were flabbergasted by the government's decision, labelling Orbán a 'maverick' and 'populist'.[46] Critics of the IMF, on the other hand, were enthralled. The American economist Mark Weisbrot argued that Hungary was 'pioneering an alternative to austerity' in Europe.[47] Apologists of neoliberalism have since been further infuriated by the government's decision to reduce the budget deficit by imposing levies (so-called 'crisis taxes') on banks and financial institutions, telecommunications, energy and large retail companies (all of which are mostly foreign-owned), as well as to renationalise private pension funds. While foreign investors and pundits in the international business press have been fulminating against these moves, they have been popular with the Hungarian electorate.

4. Macroeconomic Imbalances are to Blame

The fourth narrative seeks to move beyond the narrow scope of the previous three. 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'.[48]

Narrative 4 presupposes that the reasons why CEE economies were badly hit by the crisis cannot be reduced to a single factor alone. 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 levels of external debt, rapid credit growth and a consumption boom financed by foreign currency borrowing.[49] Irrespective of political convictions, there is a 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, as to the causes that enabled these factors to develop.

Proponents of market orthodoxy trace the reasons for Hungary's vulnerability 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 austerity);
- lack of 'competitiveness' *vis-à-vis* other economies in the region due to failures to implement structural reforms in the economy; and as a result:
- the continued existence of a premature welfare state.

Former Finance Minister László Békesi has been one of the celebrated representatives of these 'Market Maoists'.[50] He argues that Hungary's economic problems were due to 'erroneous' government policies between 2001 and 20006, combined with structural characteristics of the Hungarian economy.[51] Instead of following policies of 'sustainable growth' (e.g., increasing exports and investments while furthering household savings and fiscal stability), Békesi argues that successive governments in Budapest led the economy down a path of 'artificial growth' through 'voluntarist' measures, which increased state spending and saw wages growing beyond increases in productivity. Structural imbalances, with the economy being 'dominated by sectors that are sensitive to conjuctural changes', which are usually severely affected by downturns in global demand, placed further strains on the economy during the global crisis.

While one might concur with some 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, marketisation. Hence, 'There should only be as much planning as is absolutely necessary, but as much market as is absolutely possible.' In order to achieve this, labour must be brought to its knees. Wage increases should be tied to increases in productivity and the government should stimulate exports whilst maintaining a stringent stance in fiscal policy. The overall goal of economic policy, Békesi argues, 'should not be the optimisation of distribution . . . but increasing competiveness'.[52]

In its progressive version, Narrative 4 places the Hungarian economy within a wider context, emphasising the macroeconomic, 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 among 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'.[53] Other economists, such as 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 multinational corporations (MNCs). The lack of competitiveness of Hungarian firms, Róna argues, is ultimately due to a combination of bad monetary policies of the central bank and the government's lack of development strategies.[54]

Ultimately, 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 more active state involvement in economic affairs. But although shoring up the welfare state is a noble cause to fight for, the problem with this view is that its solution to the crisis remains within the framework of the existing system.

Interpretation 4 provides a much-needed macroeconomic, geopolitical and historical dimension, which manages to highlight how global imbalances affect the Hungarian economy. However, in the end, its technical and abstract language means that this interpretation lacks the popular resonance of Interpretations 1 and 3. Therefore, as Castree points out, it is 'operative only among those versed in the technicalities of the global political economy'[55] – the type of people who read the *Financial Times* (or comparable business papers in Hungary), IMF or World Bank reports or in books or academic essays on the global political economy.

TOWARDS AN ALTERNATIVE INTERPRETATION

The current global economic crisis has highlighted the contradictory dynamics of capitalist development. As we have seen, its effects on individual economies and different regions have been varied. The abovementioned narratives all highlight interesting *aspects* of Hungary's vulnerability to the global crisis; however, none of them provides a satisfactory account of how its recent economic malaise

is interlinked with the dynamics of the global economy. What they lack is a sense of *totality*.

There is a body of Marxist literature on which a more critical and valuable approach to the effects of the global crisis on CEE economies can be constructed, with concepts of 'class', 'law of value' and 'competition' at its heart.[56] 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 states system. This chapter seeks to complement these insights by drawing on the notion of 'uneven and combined development' (U&CD), as developed originally by Leon Trotsky and in which there has recently been renewed interest.[57]

Conceiving of capitalist development as a dynamic process which results from the interaction between economic change and political and social forces, the notion of U&CD offers a framework on which a non-deterministic account of post-transformation capitalism 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 of capital accumulation.[58] Hence, while capital, to quote Marx and Engels, *seeks* to 'create a world after its own image',[59] it does not represent a homogenising process, but leads to variations across time and space.

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 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'.[60] As capitalism expands across the world, aspects of U&CD 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.[61]

Here we can discern how the theory of U&CD can be connected to Marx's law of value, a point recently explored by Colin Barker.[62] His argument is based on the notion that the expansion of productivity 'creates a rapidly growing flow of commodities whose value must urgently be realised', which forces capital to move beyond its national boundaries.[63] The competition resulting from this process 'translates into "international" pressure on the nations and industries of the entire world'.[64] As Barker points out, once a world market built on the logic of capital accumulation has developed, the law of value imposes itself with ferocity on those subject to its power, generating U&CD in the process:

> The law of value . . . 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.[65]

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 fall'. Barker argues that this concept seems to offer 'a neat dialectic' with the theory of U&CD, as it illustrates how 'one process, accumulation, engenders through its very logic its opposite, devaluation'.[66] This is the case since the 'interaction of capitals, through the circuit of production and circulation' is in itself based on relations between 'unevenly advantaged capitals', which lead to incongruities in the investment of new production, and hence tend 'to cheapen commodities at the point of sale'.[67] 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.[68]

Left with outmoded 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.[69]

In many ways, this contradiction epitomises the paradoxical outcomes of the integration of the Soviet Bloc into the global economy, which, on the one hand, saw these economies being incorporated into the circuits of global capital, while, on the other, 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.

BETWEEN STATE CAPITALISM AND THE MARKET

The crisis of the 1970s presented leaders on both sides of the Berlin Wall with a depressing picture of overproduction, lower returns on investments, mass unemployment and working-class resistance. Following old habits, capital responded to the crisis by spurring a Darwinian process of 'creative destruction', allowing unprofitable units of capital to fail while those surviving the test were supposed to provide the basis for a new cycle of economic growth.[70] However, the world economy had undergone significant changes during the years of the post-Second World War boom, with the units of capital – the firms within the system – becoming larger through the processes of concentration (the gradual accumulation of capital) and centralisation (mergers and takeovers). Tense military 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 to the system'.[71] The system was, in other words, becoming too big to fail.

Other solutions thus had to be invented to solve the crisis. In the West, the answer was to turn to neoliberal policies and create what David Harvey describes as a 'spatial fix', which sought to overcome the problems of falling profit rates by moving capital and labour to areas where it was cheaper to produce them (i.e., outsourcing), while at the same time seeking to open up new markets for capital accumulation so ushering in the processes commonly recognised today as 'financialisation'.[72] (The implementation of these policies was not automatic, but often relied on active support

by governments.) While neoliberal policies managed to defer the crisis in the advanced economies (profit rates recovered in the 1980s and 1990s), they failed to stimulate worldwide growth. Global per capita growth rates fell from 3.5 per cent in the 1960s to 2.4 per cent during the troubled decade of the 1970s. Data for subsequent decades have been even more depressing, with global growth rates of 1.4 per cent and 1.1 per cent for the 1980s and 1990s. For the 2000s, the picture was even bleaker with annual aggregate growth struggling to reach 1 per cent prior to the outbreak of the global financial and economic crisis.[73]

In the East, the crisis of the 1970s brought the economies of the Soviet Bloc face to face with their own internal contradictions and the grim realities of the world market. As the effects of the slump became increasingly felt within the Bloc, the leaders of the one-party regimes bowed to the pressures of capital – what Trotsky described as 'the whip of external necessity'[74] – abandoned central planning in favour of the market and sought greater integration with the world economy. This was to be achieved through a policy of importing technologically advanced goods from the West in return for exports of industrial and agricultural products.

Hungary became a regional forerunner, with its imports from the West growing at a faster rate than those from other Soviet Bloc states.[75] The rise in imports was to be paid by loans from Western governments, banks and international financial institutions. This meant that the debt burden of the command economies rose significantly from the 1970s onwards. In the 1980s Hungary's foreign debt per capita was the highest of the Soviet Bloc economies.[76] Caught between the pressures of the world market and growing demands for reform – both within the party bureaucracy and from dissident movements – the Kádár regime was incapable of upholding its hegemonic role in society. Increasingly squeezed from without and within, most of the party leadership decided to 'jump before they were pushed'.[77]

HUNGARY'S POST-TRANSFORMATION CAPITALISM

The Hungarian economy was in a dire state by the time of the regime change. From 1973 to 1990 it had stagnated, in contrast to the preceding period (1950–73), when growth had averaged 3.6 per cent, which was above or on par with most advanced economies.[78] Faced with this bleak picture and spurred on by spiralling foreign debt, the political elite concluded that radical market reforms were

necessary in order to jump-start the economy. The hope was that these would stimulate economic growth, which in turn would enable ordinary citizens to enjoy the same living standards as their neighbours in the West.

The door was thus left open to the interests of capital. Economic reforms placing emphasis on liberalisation, marketisation and privatisation were introduced by successive governments in Budapest. This process dovetailed with the economic and geopolitical interests of major Western powers, which were eager to move in and gain control of new markets created as a result of the collapse of the Soviet Bloc.

The influx of foreign capital brought drastic changes to the Hungarian economy. On the positive side, it contributed to the introduction of previously absent manufacturing activities, such as computing and car production, while the proportion of low-tech industries declined significantly.[79] 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 per cent in 1989 to 19 per cent, while the share of total exports going to OECD countries rose to 70 per cent.[80] Since then, these tendencies have become entrenched.

The structure of the Hungarian economy has become similar to those prescribed in neoclassical textbooks. Hence, to the acolytes of neoliberal orthodoxy, Hungary represents a success story of neoliberal transformation. However, as Phaedrus, the Roman fabulist, proclaimed, 'Things are not always what they seem to be, and the first appearance deceives many.' Similarly, Hungary's growing resemblance in overall macroeconomic structure with advanced economies does not reveal some of the structural imbalances that have remained intact 20 years after Hungary's formal transition to the market.

To begin with, Hungary's reintegration into the global economy largely followed short-term interests and lacked any long-term vision of social and politico-economic development.[81] Subsequent governments in Budapest treated the inflow of foreign capital as a sacred cow, which was automatically supposed to yield higher economic growth. However, this view failed to recognise the real reasons why foreign capital had suddenly become interested in CEE.

The reasons for capital's attraction to the region were twofold. On the one hand, the combination of relatively low labour costs and an attractive climate for foreign investors (e.g., low or even flat tax rates, protection of private property and the right to expatriate profits), together with their geographical proximity to the core economies of the EU and higher than average profit rates in a number of sectors (finance in particular), made these countries a lucrative region for capital flows from advanced economies.[82] On the other, the flow of foreign capital to CEE economies enabled capitalists in the core economies to spur a 'race to the bottom' by forcing workers in their countries to accept lower pay and conditions. As exposed in a report by the Research on Money and Finance (RMF) network, the great beneficiary of these policies was Germany, whose main source of growth in recent years was through the accumulation of a current account surplus, achieved through pressures on pay and conditions rather than productivity growth. This surplus was then 'recycled through foreign direct investment and German bank lending to peripheral countries and beyond'.[83] Indeed, German banks were one of the main owners of the Hungarian banking system.

The drawbacks of Hungary's overreliance on foreign capital and exports are visible in the overall structure of its economy: the proportion of foreign capital is extremely high, while the internal market is weak. This is evident from the fact that, in 2008, nine of the ten largest corporations in Hungary were subsidiaries of MNCs.[84] However, while foreign capital is monopolistic in many parts of the Hungarian economy, the problems that stem from this are aggravated by what Szalai describes as the 'monocultural character' of foreign capital, in the sense that the activities of MNCs are primarily geared towards the needs of Western European markets (in particular Germany, which remains Hungary's largest trade partner).[85] According to estimates by Loránt, the profit extracted by MNCs from the Hungarian economy amounts to 6–7 per cent of total GDP.[86] 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 replaceable, rely on low-skilled labour and can (if necessary) be shifted abroad at a pen stroke.[87]

At the same time, the restructuring of the Hungarian economy along neoliberal lines came at a high social cost. Throughout the region, economic restructuring led to a 'post-transition recession', the magnitude and duration of which even the World Bank admitted was 'comparable to that of developed countries during the Great Depression, and for most of them it was much worse'.[88] 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.[89] In 1996, real wages and pensions were 24 per cent and 30 per cent respectively below their 1989 levels.[90] Economic recession

also resulted in widening income inequalities. The income of the richest 10 per cent of the population towards the final days of the Kádár regime was around 4–5 times that of the poorest decile. By 2003 it had risen to 8.4.[91] In concrete terms, this translates into staggering differences in wealth: while the poorest 1 million Hungarians control a mere 3 per cent, the richest 1 million own 25–6 per cent of national wealth.[92]

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.

CONCLUSIONS: THE HUNGARIAN CRISIS AS AN ORGANIC CRISIS OF POST-TRANSFORMATION CAPITALISM?

In 1989 'real socialism' came to an abrupt end in CEE. In the following two decades the region has been a laboratory for neoliberal transformation. 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'.[93]

The current financial and economic crisis has brought the triumphalism of global capitalism into question and shattered the neoliberal wonderland in CEE. At first sight, Hungary's vulnerability to the crisis appears to be contingent on the fluctuations of the world market. Hence, fanatic 'market Maoists' are calling for further 'market reforms' while born-again Keynesians speak of 'state-led development', in the belief that these measures will put the economy 'back on track'. But what if the current impasse in Hungary is more profound; what if its problems extend beyond the 'normal' up- and downturns of the business cycle and underlie fundamental contradictions in Hungarian society itself?

This is a bold claim to make, but let us be brave for a moment and follow through the argument. My claim is that the politico-economic system introduced in Hungary after the regime change was plagued with contradictions from the beginning. Under pressures from the world market, successive governments in Budapest 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, public dissatisfaction with the current state of affairs is near total. In April 2010, a survey indicated that 94 per cent of those interviewed regarded the economic situation in Hungary as bad, while 72 per cent said they were worse off now than under communism.[94] Capitalist triumphalism thus seems to be giving way to the dystopia of capitalist realism.[95]

But, beneath the surface, these data also point to a potential crisis of hegemony of the Hungarian ruling class. On the basis of our analysis, it seems plausible to argue that Hungary's current impasse extends beyond the boundaries of a 'cyclical crisis' (i.e., downturn of the capitalist business cycle), to what Antonio Gramsci defined as an 'organic crisis'. While cyclical crises are an inherent outcome of the contradictions of capitalism, organic crises extend beyond the problems of capital accumulation, creating problems in society that question the hegemony of the dominant class.[96] The dissolution of the old order presents previously subordinate classes with a possibility of challenging the status quo and achieving hegemony in society. However, Gramsci emphasised that this was by no means a straightforward process, as the contradictions of an organic crisis could (in the absence of a clear counter-hegemonic bloc) 'protract themselves for tens of years'.[97] Faced with such a situation, society 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'.[98]

If we utilise Gramsci's concepts, Hungary's crisis takes on a completely new meaning. For progressive forces in Hungary this means that they have to bite the bullet and accept that there is no solution *within* the current system to the country's economic malaise. The only viable alternative is to unmask the profanity of the present system and re-engage with the politics of class struggle.

NOTES

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94. Pew Research Center, 'Hungary Dissatisfied with Democracy, but not its Ideals', *Pew Research Center's Global Attitudes Project Survey*, pewresearch.org/pubs/1554/hungary-economic-discontent-democracy-communism), 2010.
95. See M. Fischer, *Capitalist Realism: Is There No Alternative?* Winchester: Zero Books, 2009, for an excellent diagnosis of the term.
96. According to Gramsci, organic crises represented the coalescence of '*insuperable* contradictions . . . in the structure [of capitalism]'. A. Gramsci, *Quaderni del carcere*, vols. 1–5, Torino: Einaudi, 1975, p. 1582.
97. Gramsci, *Quaderni del carcere*, p. 1579.
98. A. Gramsci, *Selections from the Prison Notebooks*, New York: Progress Publishers, 1971, p. 276.

11
Serbia from the October 2000 Revolution to the Crash

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THE OCTOBER 2000 REVOLUTION

On 5 October 2000 the people of Serbia rose up in Belgrade against the rule of Slobodan Milošević and his Socialist Party regime. The parliament building in the centre of the city was stormed by the crowd. Demands for democracy were fuelled by the government's unwillingness to recognise its defeat in the 24 September presidential election. Hundreds of thousands of people demonstrated in the capital that day, with convoys of trucks and lorries travelling from major towns and cities across Serbia. In September political events had been dominated by a general strike of 7,500 workers from the Kolubara mine complex, coal from which produced the majority of Serbia's energy needs. Their demands were both economic and political, with a call for full recognition of the general election results.[1] The state's 'official' union condemned the strike but other, newly independent unions agitated in its support. Workers then turned the Kolubara strike into a beacon from which to launch a more fundamental protest. Protestors from the Sevojno copper mill and the Kostolac mine joined the strike, and protest among workers began to spread throughout the region. One crucial moment of this 'Bulldozer Revolution' was the charge by a tractor driver with his bulldozer at the state-owned television building on 5 October. The building was set on fire and three floors were gutted, while some of the despised journalists and editors were beaten up and driven out into the street.[2] During the reign of Milošević the media had remained loyal to the state elite and its mendacity, and this worker's individual protest symbolised the desire of ordinary people to transform their country after years of war, sanctions, NATO bombing, economic austerity and authoritarian politics. The storming of parliament together with the bulldozer charge marked a high point of workers' anger. There had been many anti-government demonstrations