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# The Political and Economic Transition in Hungary

*The Magyar post-communist transition went ahead without blood and revolution, but this does not mean that it was painless. The economic transition was especially hard for Hungary, although it is considered to be one of the most successful transitions of all the post-communist states. In this paper, I would like to explain why the Magyar transition is considered to be successful, what the achievements were, and how high the costs were.*

## I. Political Transition

At the end of the eighties, the leaders of the communist regime chose a path of liberalisation instead of totalitarian dictatorship. They allowed everyone to live who was not strictly against them. The opposition became more and more active, organised and influential.

The communist leaders in Hungary saw that the power of the Soviet Union (USSR) was decreasing in the same way as their own domestic power was. So they came to the conclusion that the only way to survive would be to share power.

This process of liberalisation began in 1985, and after 1987 the opposition even began to work openly. They held meetings and produced publications, and many people joined them. Thus, they became more and more powerful and in 1988 were able to force an agreement with the ruling party.

The agreement stipulated that no one would be punished because of her or his communist past. Equally, no one would lose her or his money and no one would be excluded from the political life of the country.

In the second part of the agreement, it was decided that parties could be founded without any restrictions and free elections would be held. Consequently, in 1988–1989 many parties were founded, and in 1990 free elections finally took place in Hungary. This, in short, is the history of the political transition.



Since that time, there has been a high degree of political stability in the country. Elections take place every four years – not sooner, not later. There is always a strong opposition and a strong ruling party at the same time.

To date, all governments have been voted out of power after four years, and the new governments have taken power without any disruption – a feature common to consolidated democracies. The political transition, however, was only one side of the transformation process. It is the economy that gives stability to any democracy. Thus, in the long run a successful economic transition is even more important than the political one.

## II. Economic Transition

The economic crisis of the mid-eighties was a strong contributing factor to the demise of communism. At that time, the economy was getting closer and closer to collapse; productions were expensive and inefficient.

After the political transition, the economic collapse was even more complete than in the closing years of communism. In 1993 there were 800.000 unemployed people because all the unprofitable and unsalvageable factories had been closed.

Others worked with significantly reduced incomes. The previously existing social net fell apart, and many people remained without any social benefits. The first freely elected government realised that there was no significant international aid for financing the recovery of the Magyar economy.

Foreign banks and governments would help with their advice or would partially finance some programmes, but there would be no aid or external financing to reduce the difference between Magyar and Western European living standards.

All these could only be financed from internal sources. As a consequence, economic success would not come for free. Some groups of society must pay for it, or otherwise there would not be any chance for success.

The Magyar governments recognised these facts, and applied corresponding economic policies which imposed hardship on many people, but finally seemed to get the Magyar economy out of deadlock. This process has had three phases. The years are approximate, but the intervals more or less cover the right period.

### 1. The Way Out (1989–1996)

The first priority of the economic policies implemented was the creation of workplaces. Only multinational companies had enough capital to create stable workplaces, so in order to solicit them to Hungary, the governments needed to create legal and political stability. Accordingly, they made remarkable steps towards macro-economic stabilisation.

They also reduced the level of corruption significantly. This was an important achievement, not only because corruption costs dearly or is immoral, but also because it created a much more transparent and calculable business environment conducive to attracting foreign investment by multinational companies.

The state companies that were privatised in Hungary were sold at rather low prices; however, they went with the obligation of modernisation and additional investments. The state gave tax reductions for investors who made green field investments.

The state also gave tax reductions for all those who reinvested their domestic profit in the country. Similarly, infrastructural investments by the state were all kept at a relatively high level.

It was important to keep the cost of the labour force low, remembering that while factories in Hungary are doing low-level work, Magyars are competing with the labour force in China, Poland, Mexico, and the like.

Transition also meant the creation of a smaller state. This was mostly realised by privatisation, but it also meant the reduction of social expenditures and pensions. Consequently, poverty increased enormously throughout the whole period.

Social differences increased significantly, and the social net almost completely fell apart. But, while people lived at a lower level than during communism, the external investments were the highest in the region.

At first they brought to Hungary only the simplest work, but the number of unemployed slowly began to decrease. There was still negative economic growth, but the structural change of the economy took a big step.

## 2. Development (1996–2002)

During the second half of the nineties, the priorities of the Magyar economic policies increasingly changed. This change has been a continuous process, and there is not one single remarkable date which could be named.

The new priorities had been considered a goal even from the beginning, as a second step after the revitalisation of the economy. At this stage the decision was made to abolish the automatic tax reduction.

Instead it was given to those who brought advanced workplaces and research institutes to the country; it was a step towards high-tech industry. It was also time to think about domestic companies in Hungary.

Most of these were of small or medium size and were founded during the transition period. It was quite important to make them accumulate capital, because it was cheaper to create a workplace in a small firm than in a multinational company.

Furthermore, these small firms would not move from Hungary in an economically hard period. The accumulation of capital was successful in many firms, so in 2001–2002 Magyars recognised that they exported some of their capital.

This was the way to involve more and more capital, to be able to develop competitiveness and to become a regional multinational company. The conclusion of the period is very similar to the results of the previous period.

The social net was still rather patchy, the average wages were much lower than inside the European Union (EU), and the pensions did not increase as much as did the Gross Domestic Product (GDP).

However, the economic growth was twice as high as the European Union average, and the construction of houses began on

a large scale, which meant the beginning of rebuilding the country. Small Magyar factories were founded, which meant the accumulation of national capital. The infrastructure, including highways and railroads, developed.

## 3. Stagnation (2003–2004)

After the period of economic growth seemed to be continuing for several years, the government decided to compensate workers and pensioners who financed the economic recovery. They increased the wages in the public workplaces by 50 per cent.

As a consequence, thousands of workplaces were closed in only half a year. Hungary faced problems with inflation and foreign investment started to decline. The conclusion is evident: although the economy might appear to have recovered, it is still fragile.

The Magyar experience seems to demonstrate that it is not possible to increase wages and to create a better social net at the same time, because it comes at the expense of competitiveness and effectiveness, and companies will soon choose a cheaper region to move to.

## No Excuse

No Magyar government could have survived without having a strong and convincing plan for transition in the country. Hungary had no possible excuse for not following through with the transition.

The previous leaders of the communist regime became democrats fully accepting democratic rules, and even entrepreneurs; so they had no interest in changing the system back. Thus no part of the political elite had an interest in reintroducing communism to the country.

Hungary has a lot of competitors. The neighbouring Central European countries were in a similar position to Hungary. So, for example, if Poland could succeed in economic terms, there was little reason why a Magyar government could not.

Nationalism could not mobilise the whole nation, nor even a major part of it. Most of the people prefer money to nationalism, so political leaders could not say that Magyars should lock up their country, isolate themselves from globalisation, and exclude foreign capital from the country.

They could not delude ordinary people into thinking they will be better Magyars if they are poorer but not the slaves of foreigners. So, Magyars did not have considerable nationalist movements in the nineties.

Nor could religion function to create excuses. Magyars have many denominations. Most of them are Roman Catholic, but they also have large Calvinist-Reformed and Evangelical-Lutheran communities. Yet most Magyars in their everyday life have no connections with any churches.

So, religion was also unable to hold the people together and make them oppose globalisation. The Magyar nation has many historical traumas, but different segments of the population experienced these traumas in different ways and deduced different conclusions from them.

## Calculating the Final Balances

The Magyar economic transition produced many achievements, but it is also worth noting what the price of it has been – nothing was for free. There were millions who gave decades of their lives working for low wages, and who now suffer all the problems of an economy in transition, and there is no straightforward way to make their lives easier.

The transition can be financed only from internal resources, and it has not ended yet. The economy is still fragile. Fifteen years were not enough to build an economy which could not potentially collapse at the first stronger blow of the international markets. It is indeed possible to build a successful and blossoming economy, but it takes much time and involves many hardships for the people.

### Suggested Reading

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