

Thirty years of transition

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Thirty years ago the Berlin Wall fell and Central and Eastern European countries finally became free from Soviet domination – it was the *annus mirabilis*. Timothy Garton Ash wrote a wonderful book on the events - *The Magic Lantern*. He finished it with a reference to George Orwell: “‘All revolutions are failures,’ said Orwell. ‘But they are not all the same failure.’ Ash claimed: “This one was the exception. But that is because it was unlike all earlier revolutions.” The book articulated the exhilaration with the largely peaceful and negotiated transitions, which swept across Central and Eastern Europe at the time. 30 years later the mood is much more sober, and in Hungary at least, many would say that 1989 might not really be an exception to Orwell’s rule.

Communism in Central Europe was the consequence of Soviet occupation during World War II. As communist parties rose to power in the 1940s the Soviet system was copied more or less faithfully in the satellite states. As elaborated by János Kornai (1992), this implied a one-party rule with Marxism-Leninism as the dominant ideology. Private property was taken over by the state, and the economy was run by bureaucrats nominated to their position by the party. As predicted by Ludwig von Mises and Friedrich von Hayek in the 1920s and 1930s² the system was highly inefficient, wasteful and characterized by constant shortages. Since state companies could not go bankrupt, and the loss-making enterprises were always bailed out – often from the profits of well-functioning companies – the system essentially rewarded poor performance and punished high achievers. In such an environment there was no incentive for innovation or rational use of resources. Companies and people alike expected the state to take care of them – lack of liberty begets lack of responsibility. Many accepted this arrangement – especially in Hungary where János Kádár created a system of goulash communism where the second economy was tolerated thus living standards were somewhat higher than elsewhere in the region. With Soviet troops stationed in the country this seemed to be the most that could be achieved.

Once the Soviet troops left, the reference changed and people dreamed of the freedom and prosperity of the West – in Hungary converging to Austria has been the aspiration for centuries. Rejoining Europe, entering the European Union was an objective shared by the large majority of the public. It was an anchor for all the major goals of the transition: the establishment of democracy, market economy and the turn towards the West. In other words: the complete rejection of the communist system.

The illusions about the transition have died over the 30 years following the collapse of the Wall. The cause is not necessarily lack of achievements. Eleven post-Socialist countries are now members of the European Union. Most of them have registered a steady convergence to

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² For an overview about their contribution to the debate on economic calculation and knowledge see Yeager (1994).

the EU average in terms of GDP/capita although none of them has achieved full convergence (Figure 1). Even subjective well-being improved – the 2016 EBRD Life in Transition report stated that “the life satisfaction gap between the transition region and western European comparator countries has finally closed” (EBRD 2016: 12). At the same time it is hard to hide the disappointments. Indicators of good governance such as voice and accountability and the rule of law have been stagnant or – as in the case of Hungary – deteriorated significantly (Figure 2, 3). There are serious challenges for democracy, and Hungary became the first country in the EU deemed as partly free by Freedom House in 2018. The region is widely considered as a hotbed for populism and as Jacques Rupnik summarized in the *Journal of Democracy* the “post-1989 liberal cycle is exhausted” (Rupnik 2018: 36). A very recent survey found significant nostalgia for the Kádár regime in Hungary – over 60% of people over 60 consider that period as the best, but in all age groups the communist regime has a plurality. A distant second is the Orbán-regime followed by the 1990-2010 system, which is the least appreciated period (Figure 4).

What happened?

In spite of the euphoria of 1989 there were early warnings about the difficulties of transition. The collapse of the communist regime was followed by the transformational recession; the fall in GDP ranged between 10 and 50%. The recovery of the 1989 levels came only by the late 1990s. The process was accompanied by the bankruptcy of numerous former state enterprises, and millions of people lost their jobs – a new experience, as unemployment was virtually unknown under communism. While the region experienced substantial foreign direct investment, its spatial distribution was highly unequal and resulted in a situation when part of the country was booming, while other parts, especially the rural areas, experienced depression. Income and regional inequalities increased significantly. People were unprepared for these challenges – after they were dependent on the state for decades, one could hardly expect them to thrive in the new, highly competitive environment. While the European integration process represented a set of tasks and a clear objective for reforms, by the time of accession in 2004 most of the region was suffering from reform fatigue.

The post-socialist countries, which entered the EU, can be characterized by low level of trust both towards institutions and strangers. In such an environment cooperation is hard – this problem manifests itself in the weakness of civil society, the difficulties of domestic firms to expand, the evasion of taxes and pervasive corruption. Getting ahead in life is seen to require connections and breaking the law – in Hungary 82% agreed with the statement in 2009 that “in this country it is impossible to get rich through honest means” and 75% believed that “if one wants to succeed she needs to break some laws” (Bernát 2009: 30). Frustration and distrust in institutions explain the desire for a strong leader who takes care of people – especially in a country where people left behind long for the predictability and modest well-being of the Kádár regime.

A day prior to the EP election Viktor Orbán claimed – “my popularity is not an accident, this is the cultural identity of this country.”³ Indeed. He won by 52% – in the poorest rural villages over 90% of the people voted for him. In return, he promised to take care of them and defend them from migrants. Many of these voters do not use the internet and did not really hear of any other party than Fidesz given the extensive control of government forces over the Hungarian media. In such places life resembles to the period before 1989: politics is dominated by one party; jobs and resources are controlled by the state (or the new ownership class created by Fidesz), and people are encouraged to retreat into private life and not to interfere in public affairs. They are unaware of the daily fights for autonomy in the cities and especially in Budapest by power centers outside of the government – in the media, judiciary, arts and sciences. The government cannot seem to rest until all of them are subdued or dismantled.

Economically the system appears to work, and following a prolonged crisis, growth has picked up during the past years. However, behind the numbers lies the fact that around 7-8% of the GDP come from outside sources – EU transfers and remittances from those ~500 000 people, who left Hungary since 2010.

The European Union was established after the horrors of World War II, when the values of human dignity, freedom, democracy and the rule of law were self-evident for the founders. The community was not prepared to fight the return of autocracy. Following the Eastern enlargements the EU also lost the sticks and carrots it had during the accession process, and it watched helplessly the erosion of democracy and the rule of law in Hungary. As the continent is finally waking up and aims to impose conditionality on financing, Orbán is looking to the East for new allies – in Russia, China and Central Asia. The country thus went a full circle. For many in Hungary the dream in 2019 is the dream of 1989 – return to Europe, return to the West.

When looking at the region however, we should remember that Hungary is the exception rather the rule. While there are actors in a number of post-Socialist countries, who want to copy Orbán, the institutional changes did not go as far elsewhere. In the Baltic states, where there is a strong awareness of the threats posed by Russia, there is no questioning of the Western alliance, democracy or the market economy. Slovakia, Romania and most recently the Czech Republic have also demonstrated strong resistance to regress. These countries had a more difficult transition than Hungary, and their state is smaller and more constrained. Their economic convergence to the EU average has been much steadier than that of Hungary, which underlines that the ideals of the transition are still relevant, and there is no better alternative to liberal democracy, the rule of law and a market economy – as imperfect as they are in the countries mentioned. Hungary is an unfortunate example of regress, and while it is an alternative in the transition process, it is certainly not a better model to achieve prosperity. Its main relevance is to underline an important lesson – the struggle for freedom is not a matter of history. Liberty should never be taken for granted and every generation has to be ready to fight for it.

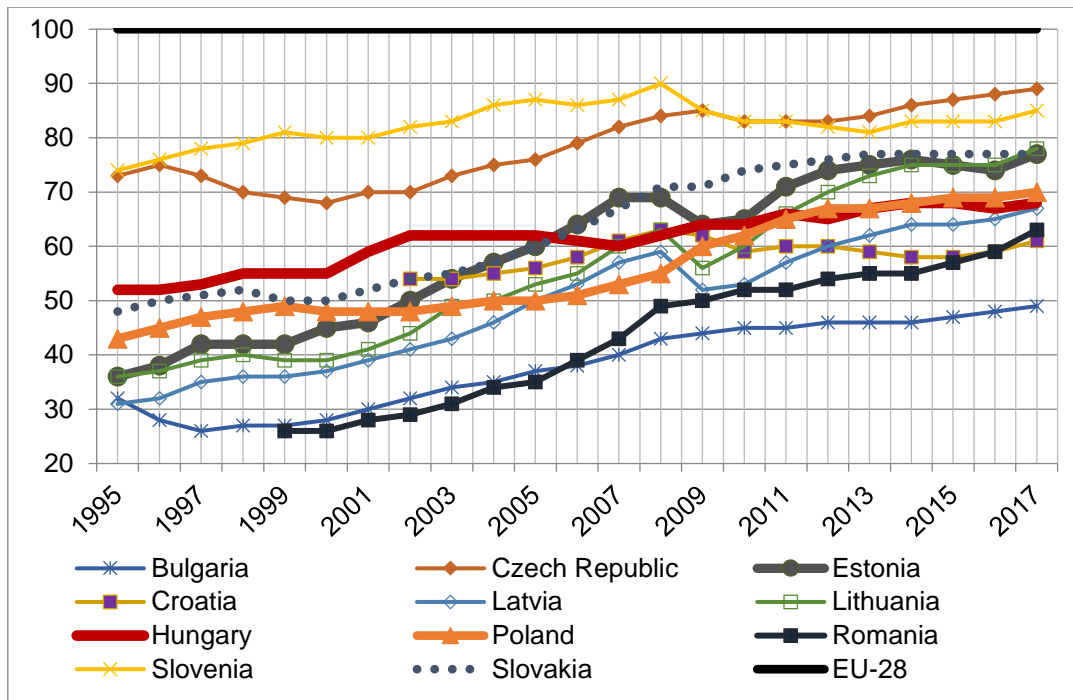
³ Interview in daily Magyar Nemzet, available: <https://magyarnemzet.hu/belfold/a-bevandozlaspartiak-mind-ott-lesznek-legyunk-ott-mi-is-6958184/> Accessed: July 5, 2019.

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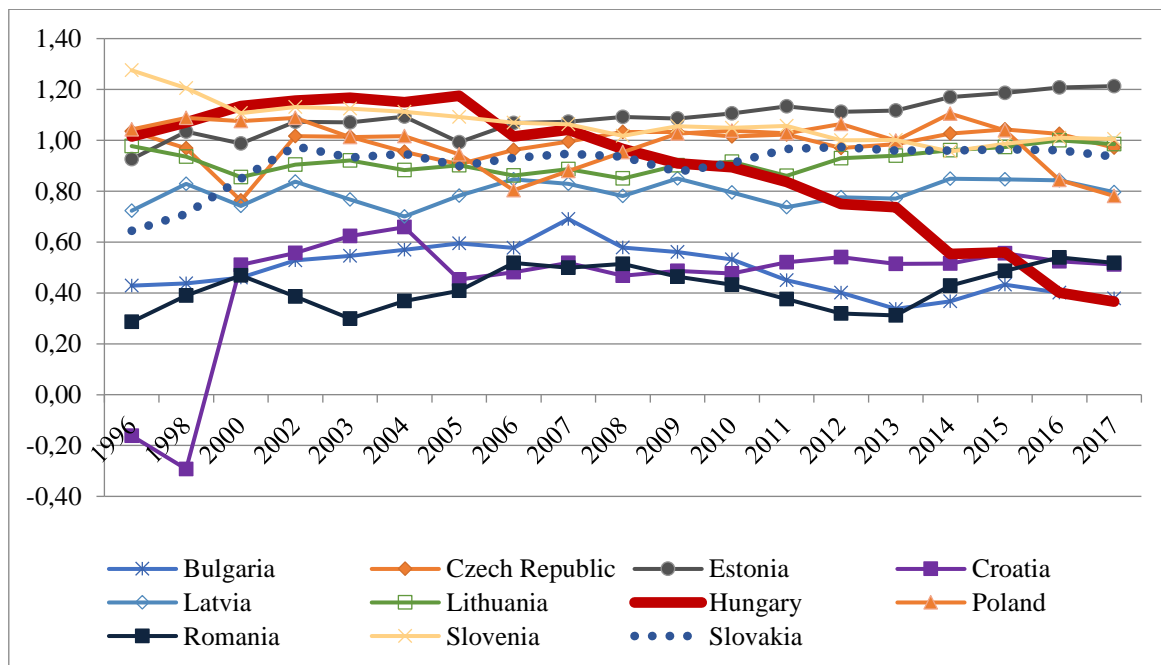
FIGURES

Figure 1. GDP/capita PPS 1995-2017



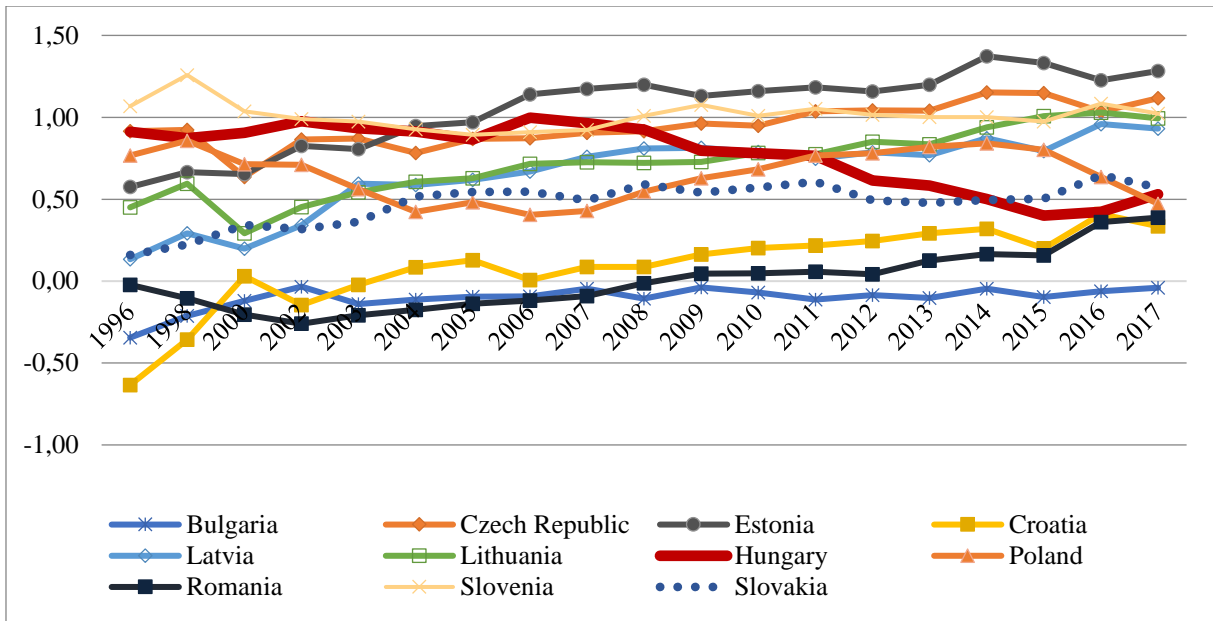
Data: Eurostat

Figure 2. Voice and accountability 1996-2017



Data: World Governance Indicators

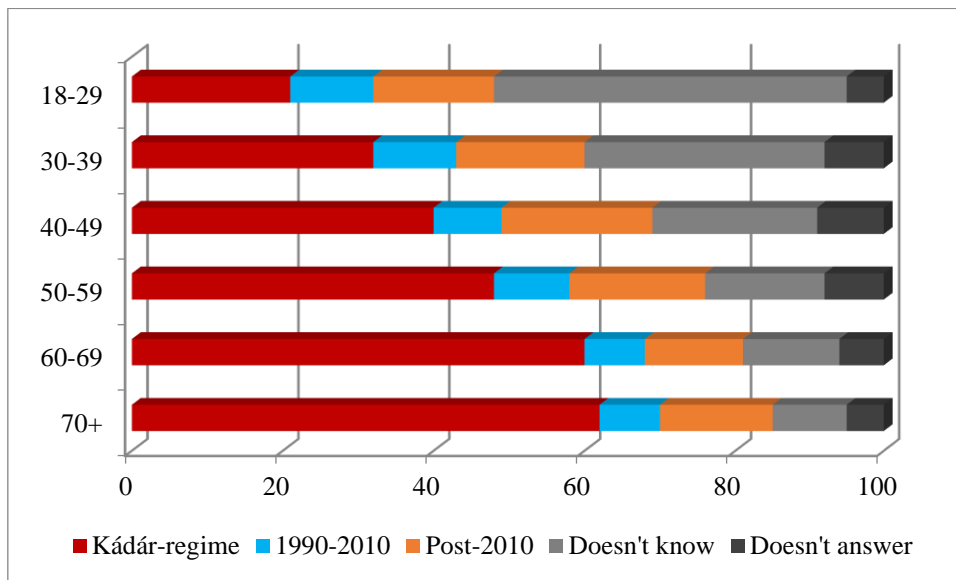
Figure 3. Rule of law 1996-2017



Data: World Governance Indicators

Figure 4. Regime perceptions in Hungary (2019)

Which regime do you think was the best?



Data: Szabó-Geró (2019)