

# The crisis of the New Capitalism in Eastern Europe: The Hungarian Example.

A tally of the last twenty years since the transformation of the political system

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*Synopsis: The main statement of the study is that new capitalism of East Europe is experiencing a deep crisis as a system, and in light of this the system change which started twenty years earlier has in essence collapsed. The study decisively shows and characterizes the path leading to the collapse, the main stages and junctions. All this is presented in light of the global context, as the history of Eastern Europe can only be understood, especially in the age of globalization, in light of developments in international relations.*

*The author decisively presents the causes and the course of the Eastern European crisis based on the Hungarian example, proving that with the analysis of the Hungarian crisis we can get closer to understanding the causes and consequences of the broader Eastern European crisis. In connection with this she shows that the Hungarian crisis is not only a condensed magnified reflection of the Eastern European crisis, but of the general crisis of global capitalism as well. Hungary is made suitable for this reflective role by its peculiar socialist past which is also related to its character as a ferryboat country. Although this past is not the consequence but only the catalyst to capitalism's general crisis, it can appear in Hungary with paradigmatic force.*

My thesis is that the new capitalism of East Europe has been undergoing a serious crisis as a system, and that the transformations begun twenty years ago have essentially failed. *The history of the thing is itself*, said Hegel (1917), therefore I want primarily to present how we arrived at this point, focusing on the main stages and junctions. All this will be placed in the global context,

**What I have said about Hungary, more or less characterizes the entire East European region, though Hungary is in a leading position in respect to being exposed to the international processes.**

because the history of Eastern Europe, especially in the age of globalization, can only be understood as embedded in international relations and its transformations. Finally, in the last two chapters I will draw some theoretical conclusions.

The causes and the course of the crisis will be presented based on the Hungarian situation. This is made possible by the fact, as shown by the most recent research of Szelényi and Wilk (2009), that the majority of the East European countries which underwent a transformation of system currently have to face a crisis of a more or less similar origin. All of the crises can be traced back to similar causes, particularly as reflected by the effects of the world economic crisis unfolding from the autumn of 2008 onwards. The other reason why the Hungarian example is especially interesting is the paradigmatic nature of it. Hungary is referred to as a ferryboat country, for reasons not independent of its geographical position. This means that summarized in its relations are all those things that situate the Eastern European countries between the East and the West, like a connecting link. In this mineral poor nation (and tied to its ferryboat existence) there has never been time and space for society's macro-relations to be molded through the accumulation of slow organic processes, starting from the society's womb, to be built upon one another. Macro-societal relations following the Renaissance have always been defined by external power factors. The Turkish Empire, the Habsburg Empire, Germany, and the Soviet Union succeeded one another,

and in the present the main international institutions of global capital are determinant. Hungary's strongly impeded organic development and defenselessness accurately reflects Eastern Europe's similarly subject situation.

Via this ferryboat characteristic one can also explain why—regarding only the last 60 years—‘everything started earlier’ in Hungary than in the other Eastern European countries. Accordingly, the appearance of the economy's market elements started earlier within the limits of socialism after 1968, and then the economic change of the regime at the beginning of the 1980s. Likewise, the serious effects of the global crisis appeared here earlier. I will reflect briefly in several points on the existing similarities and differences between the Eastern European countries, and then in the last section discuss certain aspects in greater detail.

The historical part of my study is essentially a thesis-like summary of my oeuvre of almost forty years and may necessitate greater justification. At such places I will always refer to my work of more extensive and specialized, more complex and empirically supported, expositions.

## Historical Background to the Change of the Political System

By the end of the 1970s, socialism, as an unsuccessful attempt at modernization and catching up, came to a grave crisis, and the incurable internal ills of the system became obvious. The power elite of the system tried to supplement their missing political legitimacy after the 1956 Revolution through the continuous expansion of consumption. Yet, since they had been transferring resources from efficient areas to non-efficient ones, the internal reserves

of the system were necessarily and totally exhausted by that time, and the strong inclination towards indebtedness of the system surfaced. Any further expansion, and later on even survival, met serious external barriers (see in more detail Szalai 1989a; 1989b; 1991; 2005a).

From the same period on, the outlined structural crisis catalyzed the birth and organization of social counter-elites who were articulating these problems and were in quest of a way out. In Hungary these counter-elites either belonged to the technocracy of the late Kádár period, the democratic opposition, or the new reform intellectuals (the expression 'late Kádár' originates from the fact that János Kádár was for forty years the primary political leader of the formerly socialist state). The technocracy of the late Kádár period was the growing new western generation of the 1980s who were inside the trenches of power. For the technocracy the highest values were economic values, among them particularly market values, and they were directed towards the expansion of market relations that already existed in small traces. The democratic opposition was made up of the marginalized, or on the way to being marginalized, young intellectuals situated outside the trenches of power. In regard to the social status of the new reform intellectuals, they were situated between the late Kádár technocracy and the democratic opposition, or, more precisely, they hesitated between the roles offered by the two types of status. The goals of the democratic opposition and the new reform intellectuals were primarily political ones, and were decisively represented by the management of crises appearing in the macro- and micro-fibers of the society, as well as by the demand for the creation and broadening of political democracy (Erős 1988; Lányi 1988; Losonczi 1989; Szalai 2005a). Since with the passage of time it was primarily an economic factor, namely growing indebtedness, which appeared as a limitation to *power*, the late Kádárian technocracy as a viable social counter-elite aired the demand of creating economic balance, and later on urged for a *total* opening up of the markets and foreign markets, as well as advocating catching up with the Western model of consumption.

At the same time the birth and activities of the given counter-elites was not entirely an

autonomous process interpretable within the framework of nation-states, but was rather more decisively an outcome of the expectations and pressure of the international economic and financial superstructure, particularly from the early 1980s on (Szalai 2008a).

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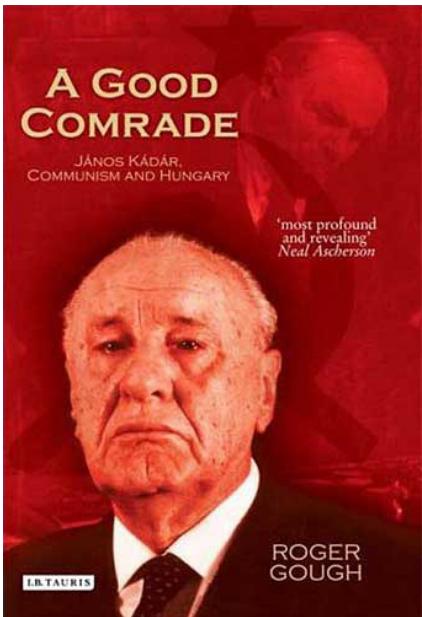
The role of this 'superstructure' was becoming stronger in the world from the middle of the 1970s. From that date a comprehensive neoliberal change began under the pressure of international large capital wishing to get rid of the fetters of welfare capitalism because of the general sinking of the rate of profit (Went 2000; Kliman 2010). It is this point which I regard as the beginning of the period of the new capitalism. In essence, the earlier global capital, which cast off its boundaries – that is, the beneficial political, economic, and sociopsychological boundaries of a long-term point of view of capitalism – began its self-destruction. It began to devour its own condition for existence, first of all the human capital and the even more straightened ecological resources. With the new capitalism, capitalism's 'history of crisis' began a long, new, and qualitatively different period from the earlier ones (see in detail: Szalai 2008a).

On the basis of the signs of crisis sensed even in the core capitalist countries, an international class struggle was being enhanced in which international large capital, wishing to get rid of the welfare achievements of capitalism, was represented by the international economic and financial superstructure. This 'superstructure' was becoming more than before interested in not only breaking down the welfare achievements of core capitalism but also in liquidating 'collectivist experiments' such as socialism. Two reasons encouraged it to do so: On the one hand, in relation to its neoliberal turn, the mere existence of a rival social system (even if it only imitated communalism) disturbed it even more than before. On the other hand, due to narrower

economic motivations (acquiring markets, cheap and well-trained labor, transferring of uneconomical capacities, and with a better chance for profit than the core countries [Papp, 2009]), and represented by international large capital, it wanted to expand its authority over the declared semi-periphery of socialism. It may not have been a deliberate effort; moreover, as it was suggested by Marx (1976: 166-167), 'they do this without being aware it'.

The strengthening of the 'superstructure' played a major role such that the late Kádárian technocracy and the democratic opposition, entering into alliance with them later on, as well as the new reform intellectuals, were able to organize themselves as a social counter-elite from the early 1980s (the effects of which in those days were very well presented in Hungary by László Andor [2003]). The operational mechanism of this was that we did not have to call the debt crisis, from among several signs of crisis of the system, accidentally as an external *power* barrier. It was decisively the debt crisis, of the numerous signs of social crisis, which was the core of the illness, and which, by its nature was eminently suited to call the attention of the 'superstructure', or, to put it strongly, it was also the core disease on which the 'superstructure' could find a hold. This debt crisis was primarily made a theme by the late Kádárian technocracy. Though it was not the management of the debt crisis but, as I stated earlier, the democratization of the political relations which represented the main aim of the democratic opposition and the new reform intellectuals, they still ultimately joined the late Kádárian technocracy in the hypothesis accepted as a proved thesis by the mid-1980s according to which the basic tenet of overcoming the debt crisis was a full opening up towards the West and the unlimited expansion of market relations.

A decisive fact in that step was that leaders of the democratic opposition and the new reform intellectuals openly gave up their earlier Marxist and neo-Marxist identity. It may be rightly called stunning that their change and its causes were forecast by György Bencze and János Kis much earlier (in the 1970s) in their work of Marxian inspiration, entitled *A szovjet típusú társadalom marxista szemmel* [The soviet-type society from a Marxist point of view]: 'Changes



will have to be made in the organization of the society and in the situation of the working class such that the institutions of authority should not be strong enough to atomize the working class. Until such changes come to pass, Marxism, forced to turn its face against official ideology, is threatened by the danger of disappearing or being dissolved into non-Marxist ideologies better suited to the social isolation of nonconformist intellectuals'.

The organization of the 'working class' never commenced, with the exception of Poland. And, the marginalized that broke away from Marxism were seeking a way to change the system, which was already in open crisis, and by the early 1980s they entered into an initially informal and subsequently formalized alliance with the late Kádárian technocracy (located inside the trenches of authority). In this casting, however, their position was necessarily subordinated to the late Kádárian technocracy (Szalai 1996; Szalai 2005a).

Focusing attention now on the collapse of the Soviet empire and on the role of the 'superstructure', we witness two parallel but intertwined processes starting in the 1980s:

*On the one hand* it became clear to the Soviet leadership that it was incapable of satisfying simultaneously three 'tasks' expressed decisively as challenges of the 'superstructure': (1) to offer a life vest to the East European countries getting ever deeper into crisis because of the debt crisis

and thus avoid their political erosion, (2) to hold on to their position in an ever stronger arms race, and (3) to keep up internal living standards, political stability, and the investment capability of the country. In addition, or rather in connection with this, rather strong sociopolitical tensions were unfolding first of all in Poland among the East European countries where the working class 'revolted against its own authority', and second, in Hungary, where social counter-elites became vigorously active.

*On the other hand* the shaping and activation of a new technocracy and economic elite of Western- and market-orientation, which may be called comprehensively as a late state socialist one, began not only in Hungary but also in all the other countries of the region (with widely diverging intensity depending on country) (Szelényi, Eyal, and Townsley 1998; Hanley, Matěju, Vlachová, and Krejčí 1988; Krausz 2007).

Under the impact of the joint effect of the above-mentioned factors the 'Soviet leadership rode with a loose rein' (an expression of Márton Tardos) from the middle of the 1980s on and by the end of the 1980s landslide-like political changes began in the entire region, including the center of the empire: the changes of the political system started with the 'mediation' of the local counter-elites.

Western transitology literature is inclined to explain the pressure of the sweeping strength of civil movements which set the changes of the political system in motion (see for instance Timothy Garton Ash 1990), but I am of the view that since only civil movements of limited strength could be born out of the womb of socialism (with the exception of Poland) the decisive battle was not waged between civil society and the 'communist nomenklatura' but between two factions of the power conglomerate, between the old 'nomenklatura' and the late state socialist technocracies. This tendency was strengthened by the fact that the late state socialist technocracies gave way to the weak germs of parties growing out of civil society right from the beginning of political changes so that they should progress towards the forums of power and not move downwards towards society (Szalai 1989b; Szalai 2005a; Bryant and Mokrzyc 1994). In Hungary its marked signs

appeared already in 1988 (Szalai 1989b, Szalai 2005a).

## Change of the Economic System – Structural Crisis

In the spirit of the Frankfurt School, and primarily Habermas (1990), one has to distinguish between the concepts of *structural crisis* and *crisis*. When there is a structural crisis of a system its fundaments are still solid though they stagger. Structural crisis is primarily recognized by 'experts', 'wise men', or the elite of the society, but mostly its counter-elite (I wish to add on the level of *rationality*, because society senses it earlier on the level of *emotions* and *passion*, I shall come back to this later). Crisis, on the other hand, is the deepest point of the process, when society explosively recognizes it and where grave and sharp social tensions and conflicts emerge. The patient is struggling in a serious and feverish condition.

In fact I sensed for the first time the failure of the transformation of the economic system and the crisis of the emergent new capitalism in Hungary in 2003 and 2004, which had begun before the change of the political system receiving major impetus only afterwards—at which time I analyzed the road leading to this point. The crisis at its essence was a result of the process of radical capital and income regrouping governed decisively by the late Kádárian technocracy (Szalai 2001) and of the great inflow of foreign capital especially from the middle of the 1990s. Economic growth became greater in the last three years of the 1990s but once again followed by a slump after 2000. This is the reason that the new structure of the Hungarian economy indicated grave signs of crisis right at the moment of its formation, by and large in the early 2000s. It already indicated, together with the closing down of factories and the departure of multinational companies, that the Western integration of the Hungarian economy was done decisively on the basis of short-term interests and decisions totally missing any social vision or the governance of some concept of economic policy. There is an excessively high proportion of foreign capital and a weak internal market in Hungary (Hungary stands in third place worldwide according to the transnationalization index which shows



it being embedded in the international economy, and this index is the highest in Eastern Europe [Pogátsa 2007]), and this foreign capital of monocultural character is based on the demands of the Western European (and primarily German) market. In addition it can be easily substituted or withdrawn at any moment, and is manifest in activities requiring low qualifications of assembly nature (Pitti 2002). Hence it is not accidental that the decline of Hungary's absorbing market, already showing an overall monopolistic effect, shook the bases of the performance of an economy dominated by foreign capital already in the early 2000s. It entirely narrowed down the mobility of local economic policy after a brief intermezzo.

One can speak about the Hungarian national economy as such only in a limited sense. The sphere having the greatest economic strength is the multinational sector, which, no matter how much it exports and invests can only slightly pull and lend dynamism to the sphere of medium and small entrepreneurs dominated by domestic ownership—and the supplying and buying relations between the two spheres is rather weak (Némethné Gál, Sinkovics, and Szennyeessy 2008). This is why the growth rate of the gross domestic product and more exactly its changes reveal little about the condition of the overall economy, the changes of that condition, how the economy as a social subsystem is embedded in society as a whole, and, more exactly, its nature. Even though the multinational sector itself is internally segregated, relationships of

cooperation inside the circle not being characteristic (an Audi or an Ericsson has no relation with each other in respect to production or trade), nevertheless, they have strong political power concentrated in the organization of common interest. Partly as a result, and also in relation to being highly technically equipped, their labor absorbing capacity is weak—compared to the circle of small and medium enterprises of domestic dominance—yet they get a far larger proportion from state redistribution. Between 1999 and 2001 the net budgetary payment compared to the value of the tools—the balance of payments and allotments—in the domestic sector was 2.6 percent and in the dominantly foreign sector was only 1.9 percent (source: calculation of Ecostat). More precisely, from the middle of the 2000s their specific contribution to redistribution was becoming more or less the same as that of the circle of domestically owned companies, at the same time the scale of their repatriated profit rose by leaps. The foreign owned sector annually distracts profits to the scale of 6 to 7 percent of the GDP from the Hungarian economy (calculations by Károly Lóránt, manuscript, 2008).

Due to the mosaic-like and one-sided structure of the economy the country is totally exposed to global economic processes and forces (a single characteristic figure: only 36 products constitute about one hundred percent of Hungarian exports [Pitti 2006]), which is partly the cause of and partly a self-confirming consequence of the particular weakness of the political elite. As a result of this weakness there is no obvious

force counterpoised against the manifestations of the incoming global economic movements, fluctuations, and crises, as well as the locally emerging ones. There is none because as a sociocultural heritage the potentially grassroots controlling force, civil society, is divided and weak.

The weakness of defensive forces and mechanisms is also indicated by the fact that global capital and its institutions consider Hungary, as well as the entire region, truly as an experimental field (the colonizers viewed their colonies in a similar fashion). They have insufficient strength as yet to implement such neoliberal 'reforms' as practiced in core capitalist countries of more stable economies and stronger democratic historical traditions. Recently such an experimental field was the public sphere, if for no other reason than the economic elite having earmarked it for themselves after the appropriation of the goods of the productive sphere and started bombarding the government with suggestions regarding the privatization of the public sphere: this was really the prelude for the privatization of this sphere by the economic elite and its ideologists stressing the neoliberal principle of self-responsibility and the demand for the partial opening of the education and healthcare markets.

The Hungarian liberal economists said even two or three years ago, 'the private sphere is all right, thank you, only the public sphere is ailing'. In truth—disregarding the domestic small and medium enterprises weak, atomized, and capital-short nature and the weakness of the internal market—the economy dominated by the multinational sector was 'booming' with the yearly growth of GDP fluctuating around 3–4 percent. At the same time the stock of external debt, inherited from the former socialist state doubled by that time, indicating grave crisis (Lóránt 2008). But what truly came into grave crisis and open regression was the society, which is based on the given economic structure. Should one have spoken about a general social rise (or, about the 'stagnation' of conditions, in a weaker wording) only a couple of years earlier even when the living standards of the population hardly reached their level of 1989? One may add to this the covering up of enormous inequalities, including the

top 5–10 percent already on incomes of a European standard.

Should one have spoken about a healthy harmony and balance between the economic and social processes when employment stagnated for long years at a rather low level and unemployment kept on increasing at a time of a relatively high rate of the growth of GDP, exports, and investments (the employment rate fluctuated around 58.5 percent between 2005 and 2008 and the rate of unemployment grew from 7.2 percent to 7.8 percent [source: <http://www.ksh.hu>, survey of the population's labor force, 2010])? In spite of the fact that general poverty somewhat decreased up to the middle of the 2000s, according to the research of János Ladányi and Iván Szelényi (2004) a massive, self-contained underclass stratum developed which is almost impossible to bring back to society and even less so to the labor market, and which passes on its totally exposed situation to the next generation.

Liberal economists nevertheless present the major wave of indebtedness appearing after 2002 as the price of all these 'achievements'. In fact, it was only a small part of the growth in debt of the period after the change of government in 2002 which covered for a few years the increase in income of the population and other social objectives. According to the calculations of the economist István Varga (2006) the largest part of it, 74 percent, was made up of the compound interest to be paid on the loans. This in itself indicates the weakness of the capacity of Hungary to assert its interests.

Nevertheless, from 2006 on the general indebtedness of the population started to grow dangerously, to a large extent because of the economic policy asserted at that time. By 2007 the stock of loan of the population grew by 20 percent in a year (a large part of it was made up of loans taken in foreign currency), while there was no meaningful change on the side of savings. From that period onwards an increasing number of people took out mortgages on their homes also for ensuring their daily livelihood ('Jön a magyar hitelválság' [The Hungarian loan crisis is coming], *Napi gazdaság*, 27 November 2007, p. 24).

The accelerating general cultural decline of the past ten years is especially endangering the long-term chances of the country ('Magyar kulturális stratégia' [Hungarian cultural strategy], working paper, variant 2, Budapest, February 2005), together with the spread of the cult of violence with a explicitly threatening component of the rapid growth of the number of violent crimes committed by children and young people ('Egyre erőszakosabbak a gyermek- és fiatalkorú bűnözök', [Children and juvenile delinquents are becoming increasingly violent], *Independent News Agency*, 19 February 2008). And at that time nothing was said about growing nationalism (Krausz 2008). We did not speak about the rapidly deepening general mental crisis. The set of state institutions (psychiatric care system) supposed to handle it were partially dismantled from the early times of the system

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transformation, and what remained was practically liquidated as a result of the austerity measures of 2006 (psychiatrist Júlia Szilágyi stated that 'untreated alcoholics, drug addicts, and psychiatric patients are out in the streets', in the spring of 2008 [Pelle 2008]). Nor did anyone notice the increasingly pitched ethnic tensions, and even the public surging ahead of the radical right wing (Szalai 2008b), which pick their victims once again mostly from among the young. The disintegration of the solidarity nets decisively places the youth in danger as well. It is revealed by the most recent survey of Mihály Csákó's research group that solidarity with the needy is one of the least professed democratic values among secondary school students. In addition there is one democratic value that is consistently rejected—the assertion of minority rights. By far the largest proportion of those questioned, more than half, would feel irritated if the student sitting next to them were a Roma ('Az életből tanulnak. Önző és magára hagyott nemzedék: tinédzserek demokráciaképe' [They learn from life. A selfish generation left to themselves:

The democracy image of teenagers], <http://www.hvg.hu>, 5 February 2009).

In addition the migration of marketable young experts to the West sped up after the mid 2000s: from then on the further development of the relatively dynamic Western Transdanubian region has been increasingly limited by the massive migration of suitably skilled people (Hajba 2008).

In 2004 I wrote that with the institutionalization of the new capitalism in Hungary its crisis had already begun. It can be added that the general crisis of the new capitalism—as shown earlier by Samir Amin (1999) among many—manifests itself more markedly and sharply at the peripheries and semi-peripheries of the world economy than in the core countries (I shall return to this issue). Actually *Hungary became a classical semi-periphery during the course of the change of the economic system*. There are several indicators: the dual structure of the economy and the society built on it, the strong inequalities in income, the weakness of the local political elites and of civil society, a decline of local culture, and a high degree of exposure to the fluctuations of the international market booms (Szalai 2001; Pitti 2006; Pogátsa 2007).

The story outlined so far indicates the structural crisis of the economic system at a time when the shift towards a downward turn could already be sensed while the structural foundations were still mostly solid and massive—open and shocking phenomena of crisis were not yet manifest. But the socio-structural crisis suddenly reached critical stage more or less around the autumn of 2006 when a private speech of the freshly reelected Prime Minister Ferenc Gyurcsány was revealed to the public. In the speech at Balatonőszöd he confessed that his party and government 'lied' about the actual condition of the country during the previous two years, resulting in the widespread and spectacular activation of the radical right wing. In fact, the trouble was sensed earlier on the level of emotions and passion. The flaring up of mistrust towards the existing conditions could be sensed in a far broader social field than the circles of the radical right. Compared to 2003, by 2007 the proportion of those who were greatly disappointed in transformation of

system grew from 14 to 26 percent and according to their impression nothing was realized of their expectations, whereas 10 percent did not expect anything good from the change of system from the outset, and their assumptions turned out to be true. The proportion of those who feared a plummeting deterioration of the economic situation grew to 67 percent (GfK Hungária Market Research Institute, 19 March 2007, <http://www.nol.hu>). In the same period 44 percent of the population held the view that the accession of Hungary to the Union was accompanied by disadvantages rather than advantages for one's family (Szonda Ipsos, 12 October 2007. <http://www.nol.hu>).

The mutual effects of economic and social crisis will be discussed later on.

### A Necessary Detour Concerning the World Crisis

Even the change of the system cannot be interpreted without a short outline of the general trends of change in world capitalism. This is even truer regarding the course of the public crisis unfolding from the autumn of 2008. Therefore, before presenting the latter, I have to briefly touch upon changes that have taken place in the condition of global new capitalism in the period under survey.

I wrote at the beginning of the study, and argue in detail in my book entitled *New Capitalism – And What Can Replace It* (2008), that I date the period of global new capitalism from the neoliberal turn of the 1970s. An imminent specificity of this period is that global capital increasingly began to eat up its own conditions of existence, human and ecological resources, and hence itself by the almost total dismantling of barriers for a drive for profit. An immediate antecedent of the public global crisis was the speeding up of these processes (Szalai 2008a).

Another immediate antecedent was the overproduction (excess capacity) crisis of capitalism of a depth not experienced in a long time (among others, see: Bello 2008; Kliman 2010), which was revealed and made open by the bursting of 'financial bubbles', the annihilation of a large part of speculative money. In my above-mentioned book it occurred to me that the speculative

money with its fluctuating demand contributed for a long time to the reduction of the ever-deepening overproduction crisis (excess capacity) in the period of new capitalism. This function of speculative money has begun to break down since 2007–2008.

Overproduction crises are closely related to the sinking trend of the rate of profit explored by Marx. Summarizing with some simplification: capitalists try to defend themselves against the profit-minimizing effect of overproduction—created by a constant effort towards pressing down wages which constitute an important part of solvent demand—by technological development, further replacing labor, in other words, with the continuous increase of the organic composition of capital. And this continues to further strengthen the inclinations towards overproduction because of falling consumer demand and the fall of the entire demand side which further decreases the rate of profit.

As I have already mentioned, according to the research of Robert Went (2000), historically the neoliberal turn of the 1970s was caused to a large extent by the sinking rate of profit, it was from that time that the falling rate of profit had to be counterbalanced by an enhanced exploitation of labor (besides Robert Went, Artner 2001; Szalai 2001; Palánkai 2009). As a 'result' of the latter, the rate of profit had a growing tendency up to the middle of the 1990s and started to sink again by the end of the decade, at least in the United States and in Germany, the two decisive countries of the core (Harman 2009). According to my hypothesis this happened partly if for no other reason because of the enhanced exploitation and exploited nature of human resources. It became, in fact, visible that since then the growth rate of the productivity of labor halted, and then it started to decrease in the core capitalist countries (IMF, World Economic Outlook, April 2008, table B3, 'Advanced Economies Hourly Earnings Productivity and Unit Labour Costs in Manufacturing'). As a consequence, as shown in the research of Annamária Artner (2008), the signs not only of financial but of real economic crisis could be seen already in 2005 after a brief transitory upturn in the 'center of the core', in the United States, of which the decrease of profits

and the deteriorating prospects of profit are most important for the aspect of our topic.

The current overproduction, excess capacity, crisis appears more in the global arenas than in the national ones, and is interpretable at this level. This means supply exceeding demand (or the products of the excess capacity) for a time can be realized as the 'overproduction' of the country groups, especially those in a privileged situation. But when the financing bubble bursts, the financial and after that the economic breakdown will appear on the level of the given countries as a crisis of 'overconsumption'.

In this regard the historical dimensions of the present crisis are enlightened by Péter Farkas (2008). In the period of new capitalism, that is of capitalism prior to globalization, there was an oversupply of goods and an overaccumulation of capital emerging every 7 to 10 years as a result of technical development and market competition. Profits decreased on those occasions. Recession set in which devalued and 'wrote off' surplus assets no matter whether they appeared in goods or in the form of money. Balance was restored and the new economic cycle could begin again. Capital which became unnecessary in the world economic crisis and the explosion of the raw material prices in 1974, however, was not written off because at that time the operational mode of capitalism changed: as a result of the pressure to maintain the level of profit in the capitalism of transnational companies, the productive and financial activities of capital became global, which was made possible by the revolution of communications and transport. The 'surplus' capital of the national frameworks was further moved in the global arena by its owners. On the local level the core capitalist countries and primarily the United States bridged over crises by strong state incentives for demand and by producing money despite the officially aired neoliberal ideology (which was forced upon the less developed countries). 'They pushed the economic carriage stuck in mire through these methods but at a grave cost: by saving the unnecessary financial capital (the bubble) and productive capital (excess capacities), and at the cost of preserving the grave disproportions of trade and payment or, for instance, at the price of further grave 'overconsumption' and indebtedness in the US. The essence of the

process was trundling ahead, but it could not continue indefinitely. The explosion of a major crisis was predictable.

More specifically, earlier on, the governments of the core capitalist countries, and primarily of the United States, ensured living standards much above the average for their workers and middle classes, despite suppressed wages, by drawing cheap loans from China, rich in resources, as well as from the oil-producing countries. They could do so, and these loans were cheap for the same reason, because the real incomes were rather low in these enterprising countries becoming richer in capacities and in capital, and as a result an enormous oversupply (excess capacity) accumulated, the other side manifesting itself in that capital could not find feasible investment opportunities 'locally'. Oversupply (excess capacity) appearing in this manner also on the global level was largely used for some time for 'overconsumption' in the core countries, and primarily in the United States by the mediation of cheap loans. 'We have drawn a tremendous amount of loans and now we will have to foot the bill', explained Mr. Soros in his lecture given at New York University ('Soros komoly kigazításra számít' [Soros expects serious corrections], <http://www.hvg.hu>, 7 November 2008).

According to Immanuel Wallerstein, today we are clearly in the B phase of a Kondratiev cycle, which started 30–35 years ago, after an A phase between 1945 and 1975 which had been the longest period of such a phase in the 500 year history of the capitalist world system. In the cycle's A phase profit is generated by material production, industrial or other. Capitalism in its B phase, on the other hand, in order to generate profit is forced to take the shape of money and flee into speculation. The large-scale indebtedness of companies, states, and households has lasted 30 years: 'Today we are in the last part of a Kondratiev-type B phase, when the virtual decline becomes reality, and the bubbles burst in a row: bankruptcies follow on the heels of another, the concentration of capital grows, unemployment increases, and the economy lives through a real situation of deflation. At the same time the current moment of the trade cycle coincides with such a transitory period which separates two long-term

systems and for this reason exacerbates it, as well. My opinion is that we stepped into the last phase of the capitalist system 30 years ago'.

*But when the financing bubble bursts, the financial and after that the economic breakdown will appear on the level of the given countries as a crisis of 'overconsumption'.*

That process which resulted for a time in the easing of the global overproduction crises through the overconsumption of the core countries (first of all the United States of America) could take place only with a partisan management of debt service. The regulation of debt service by international monetary institutions (and the value judgment of credit rating institutions) was practically nothing else but *a regrouping of the globally produced gross product for the core countries and primarily for the United States*. Once again quoting George Soros, this time from 'The Game Changer', 'Far from providing a level playing field, the current system favors the countries in control of the international financial institutions, notably the US, to the detriment of nations at the periphery. The periphery countries have been subject to the market discipline dictated by the Washington consensus but the US was exempt from it' (*The Financial Times*, 29 January 2009).

The strength and partisan attitude of the international financial institutions and credit rating institutions is clear, and now for a moment I will go back to the presentation of events in Hungary, when the classification of the country turned strongly negative merely due to the fact that the incoming Medgyessy government of 2002 began to implement its election promises of a hundred-day plan, and later on two hundred-day plan, using the liberal term 'distribute'. By a system of indicators the above-mentioned institutions qualify the countries as reliable or less reliable debtors. This had an extremely unfavorable effect on Hungary's position in the credit market and on the cost of loans the country was basically forced to draw, not mainly for 'distributing', but for covering the cost of compound interests. This also belongs to the history of the explosively growing indebtedness of Hungary.

As an 'extreme' set of data, in 2008 during the public explosion of the crisis, Hungary's debt-to-GDP ratio was 72.9 percent, and the budget deficit-to-GDP ratio was 3.8 percent. Partly relying on these series of data the international credit raters continuously gave bad ratings which had the almost direct consequence – and now I am running forward in the review of the Hungarian history – on the speculative attack against the Forint in the fall of 2008. The same data in the same period in the USA, debt-to-GDP ratio, was 69.2 percent – not much lower than the Hungarian data – and the budget deficit-to-GDP ratio was 4.8 percent – higher than the Hungarian level. The eyes the credit rating institutions did not even blink at the US numbers (source: <http://www.whitehouse.gov/omb/budget/fy2011/assets/hist07z1.xls> and <http://www.cbo.gov/budget/data/historical.pdf>).

In my 2008 book (Szalai 2008a) I discuss in detail that national societies are in the process of disintegration in our age, and even though technical conditions of global society are increasingly available, its full emergence is in the distant future as yet. I indicated the equalization of national wage levels as one of the preconditions of its emergence. It is precisely this process that may begin with the current crisis: there is a tendency for the invisible hands of the market to begin equalizing the differences of wage levels and living standards between East and West and between North and South.

The economic and power conditions of this process of equalization are also becoming increasingly available: in addition to the concentration of raw materials and energy carriers, production capacities are being increasingly concentrated in Asia (they were shifted there), and human resources, more specifically high-tech skills, are also being concentrated there (by now India has become a great software power, not to mention the dynamic technological development of China).

It is a vital question as to how this process will affect our region, and Hungary in particular. A question further associated with this is whether a kind of similarity and difference can be shown between the crisis of 1929–33 and the current crisis.

Thus, according to those who analyze not only from the financial side but also the side of real economy, including Paul Krugman (2009) and Andrew Kliman (2010), the two crises were overproduction crises. To this I add two differences, namely, that one component of the crisis of 1923–33 was a commodity production crisis whereas the current crisis is rather a production capital, overproduction crisis, and while the other component of the crisis of 1923–33 – not independent of the former component – began decisively from the commodity market, in the present crisis it emerged from the financial and banking sector.

Eichengreen and O'Rourke (2009) make a quantitative comparison of the two crises, comparing the formation of the main macro economic parameters after the month following their outbursts. According to their results the steepness of the starting fall (GDP, industrial production, world trade, stock markets, the break down of financial tools) in the first month was the same as now as in the thirties, and occasionally even worse. The difference was that the governments then took decisively restrictive and/or protectionist steps, which caused the economies to collapse. Now, however, they almost instantly interfered powerfully and partly coordinated with monetary and financial tools in order to keep the stability of the financial sphere and to widen the demand. As a consequence the crash was averted.

### Turning Back to Hungary: The Crisis

The breakout of the public crisis of the world economy in September 2008 reached Hungary within the short span of a couple of weeks. The first grave shock was that immediately after the outbreak of the crisis loose capital attacked the national currency of Hungary for the second time after Iceland, which could only be stopped by drawing up the IMF and European Union standby arrangements. Next, the Hungarian government introduced strong austerity measures besides elaborating a bank saving package (in contrast to the economic policy measures of the core capitalist countries which encouraged demand), which, nevertheless, had their internal logic in keeping with our conditions. Partly after the collapse of the country's European markets, and primarily the most important German

one, what emerged with special focus when one turned towards the domestic market became crystal clear: the domestic market and internal reserves of the Hungarian economy were so weak that there was hardly anything to encourage by monetary and fiscal tools. More precisely a vigorous policy of incentives for demand would only increase imports, further damaging the external balance of the economy.

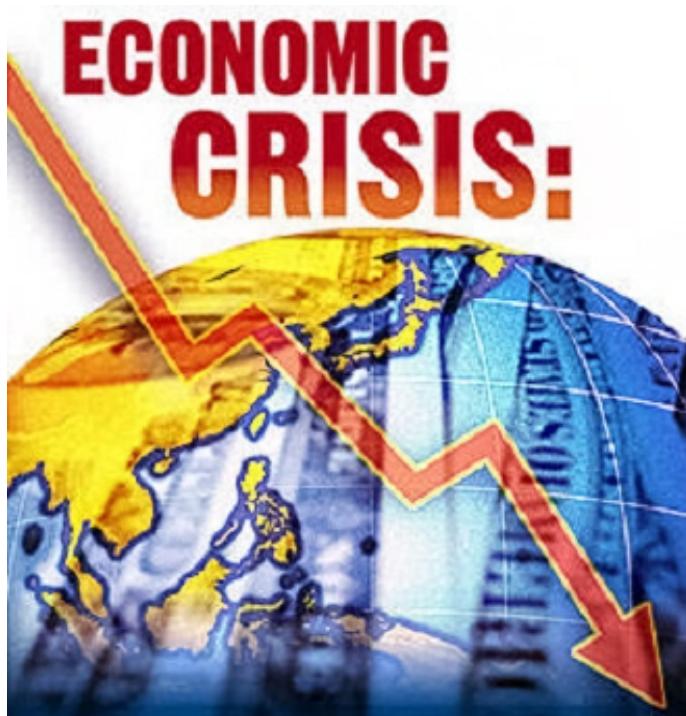
On the other hand, when Prime Minister Ferenc Gyurcsány, supported even by the head of the major opposition party, tried in Brussels at the time of the speculative attack, and once more afterwards, to achieve a temporary loosening of the Maastricht criteria thus to avoid radical financial restrictions, hoping that the EU would extend its protective umbrella over European Union members that were not part of the Euro zone, his mission was not a success. This was not independent of his second attempt when the Prime Minister proposed the setting up of an East European aid fund of 180 billion Euros, where the major part of his East European companions in distress resolutely stood aloof from the Hungarian proposal, hoping that they could squeeze out more favors through individual tactics.

On this basis Brussels forced a contract upon the Hungarian government containing austerity measures even more rigorous than the earlier ones as a precondition to receiving the second part of the extraordinary EU loan in March 2009 (Mózer 2009), but its implementation was not undertaken by the Prime Minister who was pressed by employers as well as employees. In late March Ferenc Gyurcsány announced his resignation, opening the way to a 'government of experts' quite openly serving the interests of large capital, in other words, a reform dictatorship harder than ever, burdening the cost of crisis primarily on the poorer and more exposed social strata (Nagy 2009; Ferge 2009a). It is an irony of fate that the aid fund of Gyurcsány was recommended to Brussels by the IMF recognizing the interplay in world economics. It also recommended loosening the Maastricht criteria for the region so that the Euro could be introduced early. It is an irony of fate that this was resolutely opposed by the Hungarian financial elite – riding high on the mood of crisis they found the time ripe for an ever more radical restriction and

trimming of the social sphere, more than the crisis would justify ('Az IMF szerint euró kell Kelet-Európának' [According to IMF Eastern Europe needs the Euro], <http://www.nol.hu>, 6 April 2009; 'Gyurcsány csomagot javasol az IMF Európában' [Gyurcsány proposes an economic action plan for the IMF in Europe] <http://www.nol.hu>, 7 April.). The Bajnai-plan, which proposed a further 600 billion Forint cut of the budget besides the 800 billion one implemented earlier ('Keller számba vette. Így húzta a kormány a nadrágdíjat: fél év alatt 800 milliárd spórolás' [Keller has calculated. The government has tightened the belt: in half a year saving 800 billion] <http://www.hvg.hu>, 10 March 2009), contained far tougher and anti-social austerity measures than prescribed by Brussels earlier (Baksa 2009).

It was not independent of the fact that external indebtedness grew to record dimensions in a couple of months in several leading countries of the European Union, and more precisely of the precedent created by it when ultimately, in June 2009, the European Commission extended the deadline by two years, up to 2011, by which the state deficit compared to the GDP had to be reduced to the prescribed 3 percent level in Hungary. ('Új határidőt adna Brüsszel a deficit leszorítására' [Brussels would set a new deadline for curbing deficit], HNA, 24 June 2009.) Despite this relief today it is already impossible to stop the acceleration of a so-called *restriction spiral* (the concept was introduced by László Antal in 1985 to characterize the economic crisis of socialism in Hungary), the current essence of which is that radical restrictions at first become their own cause because they constantly reproduce their necessity—radical financial restrictions 'over-cool' the economy, as a consequence the revenues of the budget will significantly diminish, which will again make new restrictions necessary on the expenditure side.

As the radical austerity measures are primarily pressed for by external and internal large capital, it can even be interpreted as a suicidal act, or series of acts: the spiral of restriction limits their available human resources and also domestic demand for their products.



The other source of danger would be the global-level process by which the core capitalist countries may transfer the burden of the open crisis of new capitalism to the peripheries and semi-peripheries, just as they had done in the case of earlier crises. One means of this is the dual standard by which the credit rating institutions treat the indebtedness of countries with different political and economical strengths. The aim of this method is to drain the resources of the peripheries and semi-peripheries, of course only in those fields where the collapse of the given peripheries and semi-peripheries does not put in direct danger the interests of core and semi-core. Where the direct danger has risen, there the core still gives rescue packages to the countries in trouble. Nevertheless, because these are refundable aids and are not given for free, they can function as a means to drain resources.

The situation of the East European semi-periphery is further aggravated by the fact that their ability to retain and attract capital is much weaker than that of the core countries under the circumstances of the hectic movement of international capital: they do not have enough economic strength, and with the deepening crisis they are going to have even less in the way of offering security guarantees common to investors settling down or intending to stay on in their countries.

The first statistics of the crisis unfolding from late 2008 in Hungary are the following: In the second quarter of 2009 the GDP was 7.6 percent greater than from a year earlier (Z. Farkas 2009). In the first six months of 2009 processes of liquidation were launched against 7,391 companies which is a 30 percent increase compared to the previous year ('Cégek ezreit sörörte el a válság' [The crisis has swept away thousands of companies], <http://www.index.hu>, 2 July 2009).

More than two-thirds of the twenty largest Hungarian exporters belong to multinational companies, of which only the South Korean Samsung and the French Sanofi-Aventis were able to increase production on group level this year. One of the greatest losers is the vehicle industry, producing one quarter of the exports of the processing industry; its production dropped by one-third in a year (Z. Farkas 2009) (for the time being there is no reliable data available about the domestic enterprises, but according to experts plummeting was even more significant in that sphere).

The social impact has not been less grave either. According to data of the State Employment Service, fifty-four companies declared group dismissals affecting 3,500 employees in the single month of July 2009. At the end of July of the same

year the number of registered jobseekers was 558,000, which was a 32.5 percent increase compared to the previous year. The rate of unemployment has remained around 10 percent (Z. Farkas 2009).

Up to August 2009 about 3,000 families were evicted that took out currency loans for purchasing homes but were unable to pay the installments (MTV1, Evening Newsreel, 24 August 2009).

Stress caused by the crisis attacks people's health: the scale of those claiming paid sick leave showed an increase of 20–40 percent depending on the region as compared to the previous year. Based on the available data no conclusion can be drawn regarding whether employees are trying to escape dismissals by claiming paid sick leave. Zsolt Bukodi, Head of the Division of Supervision and Control of the National Health Care Fund, says that 'it is a real life situation that the employee threatened by dismissal is overtaken by stress which justifies the payment of sick leave' (Baka 2009).

The political consequences are the following: In the summer of 2009 the party of the radical right, Jobbik, The Movement for a Better Hungary, obtained 15 percent for the elections to the European Parliament, and half of Hungarians were happy with its progress (a presentation of the survey of Századvég and Forsense conducted on a 1,000-strong sample: 'A magyarok fele örül a Jobbik tényerésének' [Half of Hungarians are happy with the progress of The Movement], <http://www.index.hu>, 19 July 2009). As three-fourths of the respondents of the exploratory research did not know what the campaign platform of that party was, presumably the election results testified decisively to being protest votes against the incumbent political elite as a whole and not to such an extent as the right-wing radicalization of society.

In the spring parliamentary elections of 2010, the FIDESZ-KDNP center-right coalition gained a striking victory, with two-thirds of the parliamentary seats in their possession. Jobbik, The Movement for a Better Hungary, in turn, with 12 percent became a significant parliamentary power—with this the possibilities to appear in the media increases significantly and with

the further deepening of the crisis its mobilization strength is expected to increase.

According to the report of the Central Statistical Office, the plummeting of the economy started to slow down from October 2009 on, indices of balance improved somewhat, and at the same time the rate of unemployment rose above 10 percent ('A KSH jeleni, 2009. Gyorstájékoztatók archívuma [The CSO reports, 2009. Archives of quick reports], <http://www.ksh.hu>, 18 October 2009). The opinion of analysts is strongly divided about how long the slowing down of the process of decline will last, and when some upturn might begin, if at all. Uncertainty is present if for no other reason because the slowdown of decay (and in some fields even a little liveliness is perceptible) can be exclusively explained by the slight activation of external, and primarily European markets, since the domestic market and the economy of Hungarian ownership continues to rapidly plummet or stagnate (Szabó 2009; Ábrahám and Kri-ván 2010).

I cannot analyze here in greater detail the anti-crisis steps of the new FIDESZ-KDNP government. A few aspects, though, should be mentioned. György Matolcsy, the new minister of national economy, stated that 'the illusion that the Hungarian patient is getting better is false. His condition is getting worse, the economy is going down, Hungary is just avoiding the larger problem with the *successful financial stabilization*' (Szabó 2010, emphasis added). In other words, the economic policy of restraint has to be continued. This announcement was not independent of the powerful pressure of Brussels (and the IMF), on which there are in the background the fast growing disintegration tendencies of the European Union, and related to it the significant weakening of the Euro.

A change in direction, however, soon came to light. In the interest of bypassing newer austerity measures, the government announced the introduction of a significant bank tax (200 billion forints over three years). And, as a consequence the June talks with the IMF broke off. The IMF deeply opposed the insuring of the EU and IMG specified deficit in this manner – in bringing down the budget deficit it recommends newer austerity measures, ones that

would primarily effect the population directly. The government insisted on the introduction of a bank tax and the refusal of newer austerity measures, and for the sake of public opinion presented this as an economic fight for independence.

*It is still a big question as to how long the self-designated 'national' government – which in the internal political sphere is accompanied with strong autocratic, even dictatorial, ambitions – can continue its 'fight for independence' under the growing pressure of international investors.*

Following the local level elections held in October, the government announced newer special taxes: these primarily affect the foreign-owned energy sector, the telecommunications companies, and the large hypermarket chains. Their goal, first of all, is to strengthen the position of the local economic elite and the middle class (the latter are served by the introduction of a flat income tax for individuals), and, second, to avoid austerity measures that affect the population. Besides this, the government announced the nationalization of private retirement funds with the purpose of filling the gaping holes in the budget. As a consequence two international credit rating agencies downgraded the country at the beginning of December, and the value of the forint is falling.

It is still a big question as to how long the self-designated 'national' government – which in the internal political sphere is accompanied with strong autocratic, even dictatorial, ambitions – can continue its 'fight for independence' under the growing pressure of international investors.

### Deeper Interdependencies

The story presented so far covers more or less a generation. In the following I attempt to explore the more general tendencies and interdependencies deeper in the outlined processes.

First of all let me state here a definition which is a different approach from the ones earlier: one may speak about the general crisis of a system when the medication applied for the elimination of the functional

disturbances rather worsen and do not improve the condition of the 'patient' (this process exists, and can exist, in every earlier defined structural crisis, and in the state of crisis). This downward movement characterized the former socialism in Hungary after the economic change of 1978, and this has been characterizing the existing capitalism in Hungary more or less from the first three years of the 2000s to this day. I have written a great deal about the former (among others: Szalai 1989a; Szalai 2005a), and here I am going to analyze only the latter (though, as I have already indicated, there are serious similarities between the two periods).

The essence of the economic crisis in the narrower sense, namely the operation of a spiral of restriction was already suggested in the previous chapter, which characterizes not only the processes of the past year but also the entire period after 2003–2004. Moreover, one may count the appearance not only of the economic but also of the social crisis from that date, and the two crisis processes are linked and mutually strengthen each other. It can be stated that *crisis management becomes a further cause of crisis by the mechanism of the mutual effect of the economic and social crisis*.

More specifically, a restrictive economic policy moderates or decreases not only solvent demand and the growth of revenue incomes but, as I have already mentioned, it also destroys human resources and generates sharp social tension and conflicts, and catalyses the birth (rebirth) of ignoble ideas. It has been that because the austerities were governed by the Hungarian Socialist Party (a political party calling itself leftist and the 'ideology' is provided by its intellectual followers considering themselves leftists) that consequently the increasingly burning social issues were made current themes by the right wing, and those issues increasingly slipped over primarily to the court of the radical right. In fact the activities of the center-right parties, with the FIDESZ Hungarian Civic Union in the center, were mostly exhausted by the inconsistent and unprincipled criticism of daily decisions. Political authority, however, concerning these problems is only capable of giving distorted reflections alien to reality. Nevertheless, the management of social tension and conflicts was also



attempted by the left-wing liberal government, but its essence was pressing for the neoliberal inspired principle of a means-testing in the decisive area of social policy, which brands the poor – turning the ‘middle class’ against them – who are left out of the system, and finally, generates ethnic tension hitting the Roma population, and the endpoint of the process is nothing else but the stigmatization of the poor (note the introduction of the social card in some settlements, that is the utilization of social benefits within a limited structure).

The lack of the management of social tensions, or their impossibility to cure in the given way, harshly affects the economic processes: the destruction of human resources weakens the productivity of labor, and acting jointly with growing social tension it strongly alarms ‘investors’ (the former had been manifest already, but for a time now even the latter can clearly be seen) (‘Aggódik az IMF a politikai kockázatok látán’ [The IMF is worried about seeing the political risks], MTI, 30 June 2009]). Or rather, as under the current right-wing government with its behavior becoming entirely unpredictable, investors are scared away by the government heavily taxing the foreign sector.

All this makes further restrictions necessary in the economy, while the downward spiral continues, and the improvement

of the macro-economic indicators of the economy can only be temporary.

The structural foundations of this mechanism (as I have already mentioned) were laid down decisively by the late Kádárian technocracy and their intellectual allies since the years before the system transformation. Now, questioning also the sociocultural background of the genesis: how and why were these new elite groups born? In this respect one has to quote the thoughts of Iván Szélényi and Balázs Szélényi (1994) who see the basic reason for the appearance of rival elites inside and outside the ‘communist’ elite in that the ‘communist’ elite did not care to bring up their own substitutes, because they did not want a ‘nomenklatura’ career for their own offspring. I am rather of the opinion that these children did not let themselves be brought up in keeping with their parents’ ‘tastes’. Their adolescence and early adulthood coalesced with the beginning of the disintegration of socialism and with opening up towards the West to various degrees by country, with the appearance of the Western type of behavioral patterns and consumption models and their spread, and the ‘children’ resolutely revolted against their parents on the basis of those processes (Szalai 1996).

From a global perspective the late Kádárian technocracy and its allies only played a role ‘given’ to them when laying the foundations of this structure, just as it was

generally done by the late state socialist elites in Eastern Europe. From this perspective the historical role of the former socialism producing them also opened up. Naturally by this I do not mean a teleologically ‘predetermined’ role, but the general effect of those tendencies and processes in socialism, independent from any individual’s will, which prepared the ground for the new capitalism to be born and gain ground. More precisely, I rank under those processes and tendencies the ones which were the catalysts of new capitalism’s birth and gain of ground.

The essence of this function is that the former socialism as a system, in keeping with the power elite of its heyday, destroyed (in reality rather only broke up) the existing semi-feudal basic relations (for which presumably the bourgeois-democratic conditions would not have been suited due to the historical conditions) and created the socio-structural and cultural preconditions for a semi-peripheral accession, or more exactly reintegration to the system of world capitalism; to give birth at first to industrial labor, and next to the elite groups governing the semi-peripheral entry into the system of world capitalism. And parallel to this, capitalism was to be made attractive to broad social strata on the basis of a continuously growing and enriched consumption, proving it ‘better’ for the given period, and on that foundation depoliticize and demobilize society. In Hungary the later aspect offered the ground for a peaceful transformation of the system just as well as the fact that society tolerated the original accumulation of capital and the regrouping of incomes practically without saying a word. Later, the suppressed dissatisfaction and the major social issues, which were swept under the carpet during the change of the system (Szalai 2008a), vigorously surged to the surface in a distorted form in the movements of the radical right.

At this point we reach the discussion of the role of consumption. Foucault (2000) suggested that the tools of the exercise of power fundamentally change with the progress of the history of modernity. Direct force and punishment are replaced by more refined techniques of the exercise of power. In the spirit of the Frankfurt School, first of all Marcuse (1964), this refined technique is nothing else but manipulation evoking

consumer desires from the period of 'welfare capitalism' onwards.

As it was mentioned at the beginning of this study, and from here my own train of thought will begin, this was the case also in the period of socialism: the existing authority was trying to counterbalance its lack of political legitimacy by the constant expansion of consumption, authority purchased the *political* loyalty of the society by it. In contrast the constant provocation of consumer desire is primarily the means of forcing people to constantly work and constantly create demand in capitalism, as there is no direct obligation to work, as under socialism, and the political system is also mostly legitimate there, therefore the masters of the system primarily have to purchase the *economic* loyalty of the society (only 'primarily' because in election periods promises linked to consumption also play a major role for political parties, at a time when political loyalty has to be purchased). Nevertheless, even in the age of new capitalism the situation is changing as capital needs a decreasing quantity of labor, in other words, there is a growing number of 'surplus' people. Evoking consumer demand and keeping it alive has a definite function of *demobilization* which is a political one, existing earlier, but is now becoming more marked (Martin and Schumann 1997).

I intentionally write about evoking consumer desires and keeping them alive and not about actual consumption since in the aftermath of 'welfare capitalism' the two may be kept separate in the new capitalism. New capitalism is not so much characterized by a constantly expanding and enriched consumption but rather by *playing with* the evocation of consumer desires. Nevertheless, both are 'included' in the recent 'overconsumption' of the United States, and also in the large-scale indebtedness of Hungarians who have taken out loans in foreign currency. Due to the latter one (as well) one may speak also about an 'overconsumption' crisis in Hungary, at least in respect to some segments of society.

Meanwhile it may also be known that in this country it is rather underconsumption that can be registered in respect to quite a large portion of society, as far as the satisfaction of basic needs go (Ferge 2009b),

and it is not independent of the fact that the growth of capital income has been several times the growth of work-related incomes during the past twenty years (calculations by Zoltán Pitti, manuscript, 2009), and the employment rate has plummeted to a spectacularly low level. Moreover, the 'over-consumers', and thus part of the debtors of foreign currency loans consist of indebted people incapable of supporting themselves and their families from their wage earnings. It can be stated in their case that disciplining them is not done by a constantly expanding and enriching consumption, but by evoking consumer desires and its 're-production on an increasing scale'.

*This game which may be called 'baiting' could already be traced under socialism.*

This game which may be called 'baiting' could already be traced under socialism. Ever since the 1978 change of the economic policy Hungarian society has been told by its political and economic elite that 'temporarily' they have to pull the belt tighter ('two more years of austerities and then the upturn may come') in the hope of a better future—a future presented in the booklets coming from the West as well as by the consumer habits of the elite and the upper middle strata.

The late Kádárian technocracy moved out of the summit of authority more or less around 2004—the new Gyurcsány government—and handed over its place to a younger elite group which it socialized, but in contrast having almost no leftist nostalgia (Szalai 2005b). At the same time a large part of the younger elite turned out to be the main ideologists of the new capitalism, besides many of them occupying business positions. And they proclaimed to the people that it is great to consume, but they should not desire to consume for the moment, at least not before they moderate their enjoyment. The shopping malls are the objective examples of this game: as contrasted to Western Europe they are located right in the middle of the capital city, but people should mostly go window-shopping.

Nevertheless, this story is not only about the refined technique of the exercise of power by the economic elite but also about

their self-destructive behavior: I have written long paragraphs about the self-consuming mechanism, of the restrictive economic policy related to this mentality damaging even the possibilities of capital.

Consumer mania and workaholism are the passions continuously generated by capital, driven and reproduced by the unlimited and uncontrollable hunger for profit. People suffering from it, and constantly dissatisfied, look for some compensation and counter-passion because one passion can be defeated only by another passion. Since the 'third way' trying to sell neoliberalism in a leftist, socialist garb has proved to be a blind alley, this counter-passion is increasingly going to be nationalism and even racism imitating community spirit all over the world, including the core countries as well ('Antiszemita előítéletektől teljes Európa' [Europe is full of anti-Semitic prejudices], <http://www.nol.hu>, 11 February 2009; 'Amerikában a szélsőjobb erősödése fenyeget' [America is threatened by the growing strength of the extreme right], <http://www.nol.hu>, 19 June 2009). According to expert opinion the strength and aggressiveness of the radical right is especially large in Hungary, and this is not independent of the historical traditions and the fact that the past has not been processed.

## The Fall

Miklós Tamás Gáspár stated several years ago, and it is becoming particularly marked after twenty years of the system transformation, that capitalism in Hungary and the new system creating it has essentially failed. In any case, from the viewpoint of the new system developing after the changes, it is practically unable to implement the promises of the elites in anything. The initiators of the change of system promised a social market economy, but what is seen today is almost one-third of the society living below the subsistence level (Ferge 2009b), and besides a significant underemployment the situation of those who still have work is characterized by a high degree of uncertainty and exposure (Szalai 2004; Bartha 2009). The initiators of the change of the system promised political democracy and freedom, but today it is visible that the political parties do not offer a real choice for the electorate, and, using the words of the most significant Hungarian social scientist



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of the twentieth century, István Bibó, the leaders of the political parties are ‘false realists’, whose activities are exhausted in ‘tossing a false construct here and there’ (1948: 603–613). And since the construct is in reality false, a politician who attempts to implement his election promises is necessarily doomed to fail (note the story of Péter Medgyessy, the predecessor of Ferenc Gyurcsány, who was forced into failure by global and local economic elites because he carried out his promises regarding the lifting of the general living standards once in office [see in detail: Szalai 2005b]).

This means that not only the politicians managing the change of the system have failed, and their intellectual ideologists as well, even if a majority of them still pretend as if nothing had happened concerning the essentials.

What is the content of the lie of the construct mentioned above? It is that the political elite have to make themselves and society believe that meaningful decisions affecting the destiny of the country are concentrated in their hands. In reality the actual authority is possessed by the external and domestic economic elites and their intellectual ideologists who toughly delineate, strictly limit, and occasionally even totally narrow down the space of the political elites’ mobility (at the initial phase of the transformation of the system the hands of the elites were less bound (Szalai

2005a), but they missed the recognition and realization of possibilities hidden in alternatives).

The history of the structure of power of the past twenty years is most graphically characterized by Áron Márk Éber’s metaphor: it was ‘the way of the “econocratic” specialist intellectuals to class power’ (2008). Attila Márton Farkas drew a sharper than ever image of the sociocultural features of this elite group, of their self-legitimizing ideology and language tools: ‘For us “serious expertise”, and public opinion in its wake, means *without any exception* that decisions detrimental to the people (the “inhabitants”) are “well-founded” and “responsible” decisions, and we regard all things favorable to the people as “mistaken”, “detrimental”, and “irresponsible”, and public discourse about it is “demagoguery” and “populism”. In this parlance the term “professionally well-founded” is a synonym of “painful but necessary”’ (2006: 103).

But what, strictly speaking, has come into crisis and what has failed? My answer is the new capitalism as a system.

Gideon Rachman (2009) recently called the Hungarian crisis a *microcosm* of the global crisis in the columns of the *Financial Times*. And it is true that the essential crisis elements of new capitalism have been appearing more markedly in Hungary from the first third of the 2000s, such as the using up of human and ecological resources, a

low demand manifest in some spheres, the political elite becoming weightless, a growing disintegration and atomization of the society (Szalai 2005b). Its reason, as I have already mentioned, is the semi-peripheral nature of Hungary (its dual economic and social structure, its sharp social inequalities, a decline of local culture, weak democratic traditions and civil society, a strong exposure to the fluctuation of the international economic and financial processes), and in connection with it the fact that less resources are available for the operation of the system in the Eastern European semi-periphery; there is less ‘oil’, the wheels creak more.

Hungary’s mirror role is paradoxically strengthened also by its specific historical traditions. It is done decisively by a continuously handed down behavioral pattern of its ruling elite.

The core of the ‘econocrat’ specialist intellectuals, and the father of the younger generations, is the late Kádárian technocracy. I wrote about their habits on the pages of the samizdat periodical *Beszélő* (Speaker) in 1989: ‘The new elite is not only different from, but also resembles the old one in a highly important aspect. This is related to a further specificity of their socialization [the first one is represented by experiences trickling down to them from the Western market economies (E. Sz., 2009)], namely, that they grew up in the system of bureaucratic private bargains interweaving the Hungarian society of the Kádár era, and became the possessors of power or its hopeful heirs. Whether they wanted it or not they had to use the system of separate bargains during the course of their progress. The ability of informal bargaining has become their characteristic feature which significantly weakens or may weaken the strength of their market orientation. Members of the new elite are heroes of double attachment in this respect. It has a particularly great significance that similarly to the old elite, they have built a well-tested system of informal connections’ (Szalai 1989b: 26).

Based (also) on this my forecast at that time was the following: ‘Hence there will be no radical reform, neither dictatorship. What can be expected is an authoritarian political system but not a dictatorial one, and the society basically of a nature of Estates



will survive in West European colors. This system, however, presumably will not be a lasting one because of the increasingly vigorous social tension, but due to the lack of social empathy the new elite will not recognize in time that they are being threatened' (1989b: 28).

And in truth, the history of the past twenty years is not of a purely neoliberal nature, rather it is characterized by reform radicalism flaring up from time to time, the effects of which are somewhat tuned down partly by the Estate nature of the elites on the one hand, and the strangely and weakly, yet functioning, defense mechanisms of the society on the other hand (Polányi 2001) (I shall return to my prediction concerning the 'endurance' of the emerging system later).

What is most essential from the angle of our present topic is the continued handing down of the system of Estates (Böröcz József [1997] has similar conclusions). In truth, our being 'burdened' by it also sharply outlines the tendencies of change in world capitalism as well. In my 2008 book, entitled *New Capitalism – And What Can Replace It*, I expound in detail the narrowing of market competition on a global level, far less mobility of labor in relation to capital, and the growing invisibility of the private proprietor concerned with profit, and as a result the individual, informal,

and bureaucratic bargaining mechanisms are coming into foreground, which points toward the *re-feudalization of production relations*. In fact other authors have also called attention to this process earlier, for example Jeremy Rifkin (2001), who sees a movement towards a *global Middle Age* in the processes of the present-day capitalism. An apt phrase says that 'the world has become a global village'.

In other words, the Hungarian system of Estates is increasingly becoming a world trend, in a certain sense it is nothing else but the overdrawn reflection of the general weakening and overturning of the bourgeois democratic rules of the game, at least as far as the foreseeable future goes.

What I have said about Hungary, and here I return to the starting thesis of this paper, more or less characterizes the entire East European region, though Hungary is in a leading position in respect to being exposed to the international processes. The image of the other East European countries also presents the more or less dual structure of their economy and society (perhaps the only exception being Slovenia), as it is indicated by the increasing devaluation of their professional structure (the high content of wage labor in their products oriented abroad) and by the monocultural nature of their production supply. As contrasted

to several Hungarian authors, I am of the view that when we try to define our conditions it would be too one-sided, or rather an oversimplification, to speak only about some type of 'Hungarian model', or its crisis. This approach reminds me of the thoughts of Ákos Szilágyi (2008), worded more than a year ago: the Hungarian way of doing things is characterized by fluctuation between the greatest extremes. Either we overestimate ourselves ('the happiest barracks', we are 'eminent students', etc.) or we regard our national achievements as the worst possible ones, and struggle against grave self-blame and even against the idea of the death of the nation. Since about the middle of the current decade the latter feeling has become dominant and has become a sweeping one since the outbreak of the crisis in the autumn of 2008. The Hungarian intellectuals shaping public opinion, who do not wish to face the grave crisis of the entire system of new capitalism, do not wish to see or present that Hungary is not alone in the region, because almost all of Eastern Europe has also come into a grave crisis (Hahn 2008). In fact some sober economists, and first of all Béla Kádár (2007), have put into writing that the Hungarian indicators of growth have not been any worse than those of the other East European countries from the perspective of the past 15 to 20 years. In the long run the political system

is not more unstable, the ‘fifty-fifty’, black and grey economy is not any more extensive (source: ‘A rejtett szféra’ [The hidden sphere], *A munkaadó lapja*, 2000/7, practically no reliable comparisons are made). The Hungarian employment index is very bad, but Poland had an even worse one (at least on the basis of data from two years ago). In 2007 the employment rate of the EU-15 was 65.7 percent; it was 57.3 percent in Hungary, and 57.0 percent in Poland (source: *European Economic Statistics*, 2008, p. 205).

It is true, though, that it would be too early to predict the differentiating effects of the present crisis within the Eastern European region. What can already be seen is that the economy of Slovakia collapsed more dramatically than the Hungarian one, though it was regarded as an ‘eminent pupil’ only one or two years ago (‘Negatív Európa csúcson a szlovák GDP’ [The Slovak GDP on a negative European peak], *HNA*, 2 September 2008), and the Czech Republic and Poland, opening their economies later than Hungary did, were relatively resistant (Malek 2009; Pilawski 2009; ‘A vártnál jobban nőtt a lengyel gazdaság’ [The Polish economy has grown more than expected], *HNA*, 28 August 2009; ‘Innen szép veszíteni’ [It’s nice to lose from here], <http://www.hvg.hu>, 5 August 2009).

In summary, the crisis of Hungarian capitalism is a magnified reflection and condensation of the general crisis of new capitalism in Eastern Europe, and the world. Hungary is made suitable to this reflective role by its socialist past, which is connected to its character as a ferryboat country as mentioned in the introduction of the study. Nevertheless the past is not the reason for, but only the catalyst to, the fact that the general crisis of capitalism can appear with paradigmatic force in the Hungarian crisis of capitalism.

### Briefly about the Future

Though I have written about crisis and even collapse, I do not think that the present socioeconomic system can be replaced by some entirely new system which would basically overcome the system of new capitalism in the foreseeable future, either on the global level, or in defenseless Hungary and Eastern Europe. In its time there was

a slogan in the opposition circles of the former socialism, recalling Turkish rule, that the ‘conditions impossible to endure’ lasted for five hundred years in Hungary. In other words, the condition of global as well as local crisis may last for long decades with minor improvements (as if we were witnesses now of its beginnings) and repeated fallbacks. In this respect I do not consider my 1989 forecast realistic anymore, when I prognosticated the total disintegration of the new Hungarian capitalism in a short time.

In light of these last long decades, the global crisis may have several outcomes. What appears to be most probable is that the production structures may become saved and stabilized for some time as a result of the general stimulation of demand. The resources necessary for it, however, until now were produced with the help of printing more money, or becoming further indebted to China and the oil-producing countries. Now we see, most sharply in the European Union, that the core countries’ national governments as a consequence of the stimulative fiscal policy tried to reduce their enormously swelling stock of debt first of all through the strong exploitation and draining of workers in the peripheries and semi-peripheries: this is what the current raft of austerity measures is all about. Secondly, and with less enthusiasm, there is the lashing of the banking sector. The production sphere is left mostly untouched by this.

Currently, I am unable to discuss the negative effects which will appear in the short term, but they can be easily deduced from what I have already stated. An even greater problem emerging not much later will be (among others) a procrastination of the crisis based on the decreasing value of productive capacities, which could break to the surface with a larger and more devastating force than the present one after some transitory fluctuations of amplitude.

Hungary and the other East European countries will have to navigate under these conditions. Essentially if an East European joining of forces, pressed for by others for a long time, could be realized, the region could at least make an attempt to assert its specific interests in the international context.

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