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The critical points of the economic transition of Hungary

Erzsébet Gidai

During the past two years the economic recession in the former socialist countries of Eastern and Eastern-Central Europe, which has lasted for over a decade, has been further deepened by difficulties of the change of the political and economic system. The disintegration and the drastic cut-back of the economic relations and cooperation of the region, the sharpening differences between nations and nationalities, the overheated feeling are threatening with the eruption of an economic, political and moral crisis more serious than ever before.

The change of system having taken place in Hungary has meant a positive turn first of all for the elite engaged in politics. The former «nomenclature» have become the leading circle of business life, while their former opposition are trying to conquer more and more of the power structure. For great masses of the society, however, the change of system has not so far brought about an increase of opportunities but worsening living standards and lessening freedom of individual movement.

Both the commodity producing peasantry and the working class are beyond the ideological horizon of the government coalition. The liberal parliamentary opposition, too, strongly represents the interests of capital as opposed to those of the workers and peasants, however weak and ambiguous the bourgeois civilization is, and however unestablished the new, bourgeois-capitalistic relations are in Hungary. Despite all ideological differences the opposition does not represent a genuine alternative against the government coalition, as the national-conservative ideology builds its economic policy on an order of liberal values, similar to that of the opposition. Thus both the government's and the parliament's values are to the right from centre, which is duly reflected by the institutions of conciliating interests outside the parliament, since just because of the lack of their ability to function they do not constitute a genuine counter-balance against the conservative right-wing legislative and government power.

Since the change of system the centralization of state administration has increased, which is indicated by having the State Property Agency function as an organ of the government, by repeated interventions in the management of the economy, especially by «introducing» centrally the replacement of top managers. It is typical that even the Act on Local Governments has created further possibilities of direct intervention in the internal affairs of different institutions. The system of central administration was created by statutory regulation, its essence can be grasped in one-man authority, which permeates both the state administration and the economic organizations.

While the interest of the employed are represented to a small extent in the parliament, the institutions of interest conciliation outside the parliament are unfortunately operating only formally (e.g. the Council of Conciliation of Interests). No decision of vital importance has been taken by the Council yet,

it is getting clear that the government has no other purpose by maintaining it but to shift a considerable part of its responsibility upon the employers and employees.

For the great masses of the society the change of system will become positive experience only if, besides creating an efficient system of safeguarding their interest, the process of impoverishment can be stopped within a relatively short time, and a tangible increase of living standards can be achieved. It requires a new economic policy basically different from the current one.

The cardinal point of taking a step forward is finding the way out of the economic crisis, which has continued for well over ten years now. During the past two years the worsening of economic indices has not come to a halt.

- A significant reflection of this fact is the downward trend of the index indicating economic growth (fig. 1).
- The rentability of companies has considerably fallen, which is shown by low profits, high nominal interest rates (35-49%), a growing shortage of capital, the deterioration state of functioning capital and the rapidly sinking level of technology.
- The amount of state debts is extremely high (our foreign debts equal 21 billion \$, internal debts make up 1'300 billion Ft, approximatively the same amount); the interests and instalments to be paid in 1991 will come to 4,7 billion \$. The liabilities exceed 2'000 \$ per capita.
- The elimination of COMECON, especially the collapse of the Soviet market, means a loss of nearly 2 billion \$ for Hungary, as well as a considerable loss of markets for the companies, first of all large enterprises producing mainly for the Soviet market.
- The rapidly growing inflation makes calculation and rational management impossible (inflation cash-push), and has an increasingly damaging effect on living standards. (The inflation rate in the 1990 was 35%, in 1991 it is expected to be 38-50%.)
- The relative backwardness of infrastructure, especially that of human infrastructure (education, health care, research, culture), has increased further, although it means one of the basic driving forces of progress.

The recession of the economy turning chaotic had the most drastic effect on the population with making living conditions uncertain, increasing unemployment and decreasing living standards. The number of the unemployed is expected to reach 500-600'000 by the end of 1991, i.e. about 10-12% of the occupied population will be out of work. The problem is intensified by the fact that financial means to tackle unemployment are missing. The «solidarity fund» determined as 2% of wages and salaries is not enough to cover the ever increasing expenditure on unemployment benefits. Increasing unemployment is linked mainly to accelerating privatization and to the fact the false principle of full employment, so assiduously enforced by the former party state, has been replaced by drastic - often groundless - dismissal of labour force.

The increase of unemployment is accompanied by the *differentiation* of the population *according to income and property*, by impoverishment at a large scale. This trend was definitely proven by our survey on the means of livelihood, based on 6'000 households and carried out in May-June 1990.

If we take an average Hungarian family of four, consisting of two wage-earners and two dependents, and where the parents earn average wages (in 1991 it is a net 11'000 Ft, i.e. about 160 \$), in 1989 they spent 45% and in 1991, 95% of their income on running costs and food. About 20% of the active population (i.e. of the 5 million out of 10,4 million) receive the minimum wage 7'000 Ft monthly (100 \$), which does not provide sufficient financial coverage for the two basic consumptions mentioned above. About 40-45% of the population live on the minimum subsistence income, which is - according to our calculations - about 8'400-8'700 Ft in 1991. Considering the increase of unemployment, it is getting more and more difficult to obtain extra income by taking up extra work. Those who have savings (40% of the interviewed) use their reserves to pay for their everyday livehood, where there is no possibility for that (i.e. in case of the majority of the population), the family becomes insolvent.

Thus not only the entrepreneurs producing for the home market are unfavorably affected, but the incomes of the state are also decreasing. Practically all three actors of the process are losers, but naturally the families concerned are suffering the most from this situation resulting in grave social conflicts. The organizations representing the interests of wage- and salary-earners, mainly trade unions, are only able to attain partial results (e.g. the increase of minimum wages) due to their conflicts¹ and split on one hand, and on the other as a consequence of the lack of parliamentary representation, so they cannot directly influence legislation.

One of the basic issues is to change the present state of affairs, to stabilize the economy, by means of restructuring it and developing technological standards to create new jobs, i.e. to guarantee secure livelihood for all groups of the society.

Outlines of a new economic policy

The resultlessness and failure of the economic policy pursued so far is basically due - beyond the unfavourable external circumstances - to the fact that the economic and political leadership was wrong when choosing the aims of this policy and the means of their achievement. One of the major mistakes made by the present economic and political leadership is that they wish to derive the fundamental elements of their economic policy not so much from a profound analysis of the current state of the economy as from the renouncement of the past, from transforming the old doctrines into their opposites. (E.g. private ownership instead of collective ownership, market instead of central planning, small-scale plants instead of large-scale enterprises, trade with the West instead of trade with the Eastern block, etc.) It is

also a mistake to realize the otherwise necessary changes in a forceful way, which reminds of the haste of the 1950s. The actual economic situation, however, raise there issues in a different way - not as «either-or» but «both-and» questions.

Outlining a new, alternative economic policy means assuming that the Hungarian economy may only get step by step out of its present crisis by means of organic development, in the way of ensuring a gradual transition from the current situation into social market economy and European-type mixed economy, which is set as target. In Hungary - in the course of the change of the economic system - a mixed economy has to be created, in which all viable forms of ownership may have their roles. At the same time it means that the different forms of ownership play primarily functional roles in the economy, consequently they are coordinate, none of them are superior to the others for ideological reasons.

According to the prevailing neo-liberal conception an economy is regulated and coordinated by either plans or the market. There are not, and cannot even be, Stalinian planned economy or a free market economy. The reality, on the contrary to this - in the majority of modern national economies - is a peculiar mixture of the two types of coordination and regulation, different in each country. It seems reasonable to create such a model of dual economic management in Hungary. In a dual economy one can find the branches and sectors that are basically coordinated and regulated by market forces, as well as those where the influence of the market is less decisive. To rely on market forces, concerning the regulation and coordination of the sizes of production and trade as well as that of the level of prices and wages, is permissible only in the branches and sectors where there is genuine competition, there are no monopoly organizations and the agents operating on the market are approximately in the same «weight-class», enjoying equal conditions of competition. In the branches of the Hungarian economy that are lagging behind or where the companies are in an unequal position with regard to competitiveness on either the home or the international market, the economic units capable of growth should be granted preferences and financial support by the state temporarily.

The neo-liberal conception refuses the role of the state and the economic management as shapers of the restructuring, saying: it is the task of the market. This idea is based on the assumption of an ideal market economy that has never existed. Actually, in developed capitalist countries, and even more so in the new industrial countries rapidly overtaking the former, the state very efficiently intervenes by various means and in many ways in the shaping of the structure of the economy. Therefore on the grounds of international experience and practice it would only be proper to set the «non-intervening» or «night-watchman» state of the neo-liberals against the «manager state» planning and organizing on macro-economic level, which controls and by its specific means supports the fulfilment of the tasks of restructuring most important from the point of view of economic growth and social needs. It is - among others - the task of the manager state to offer effective support to various (privative and collective) enterprises, which can be done by creating

an economic environment favouring enterprising spirit on one hand, and on the other by establishing the infrastructure and system of credits necessary for economic ventures.

According to the present conception of economic policy - adequately to neo-liberal thinking - the prices and wages develop freely (which is already true in case of prices, but no so much in case of wages for the time being), therefore the state and the economic management have to supervise only the fairness of the competition. Consequently, in this economic policy the main emphasis is on the regulation of competition instead of its being on the regulation of prices and wages. It may be assumed that in a developed market economy this conception would stand the test - though experience says it is not quite so in them either - but in an underdeveloped market economy in the making the liberalization of prices and wages may only result in inflation's breaking loose, which eventually leads to shock therapy or monetary restriction crippling the economy completely. (Good practical examples of the futility of such policy are offered by certain Latin-American countries or - in our immediate vicinity - by Yugoslavia and Poland.)

In order to get economic growth it is necessary to face the fact that central control of prices and wages to some extent is inevitable. In case of wages it may mean the levels and proportions negotiated collectively by the trade unions, the employers and the government. Regarding prices it is imperative that the state should set an upper limit to the increase of the price level in the sectors of little actual competition or none at all.

In addition to the necessity of revising the current practice of price- and wage-liberalization it is also necessary to revise the liberalization of import from developed capitalist countries, as well as the liberalization of the repatriation of profits made by foreign and joint companies dealing primarily in import. The current practice - despite the extreme shortage in foreign exchange - serves to boost up rather consumption than production, and will sooner or later exhaust the foreign exchange supplies and reserves of the Hungarian National Bank, which can only be compensated by raising fresh loans eventually. The liberalization of the import from developed capitalist countries will have to conform first of all to industrial policy and to the development of the competitiveness of Hungarian companies, furthermore it is to be combined with the elimination of the administrative obstacles towering in front of the export of Hungarian goods (especially agricultural and food industry as well as light industry products) to developed capitalist countries.

Provided the changes mentioned above are carried out, there is no need for «strict monetary policy» and restrictions, and some well-weighed measures to boost up demand may give a start to economic growth. So that this revival of the economy should not impair the balance of foreign trade and the balance of payments, on the contrary should improve them, the additional resources effected in this way are to be concentrated on the sectors which either *ab ovo* improve the balance of foreign trade (e.g. the sector of export) or reduce the need for import by increasing the vertical integrity of the economy.

In the light of international comparisons Hungary - like the other Eastern-Central-European countries - falls behind the countries in Central and Western Europe mostly in respect of the development of infrastructure. At the same time the extension and development of infrastructure is less import-intensive than other sectors and can absorb a considerable part of the relatively unskilled labour - an increasing number of whom are losing their jobs these days. All that explains why - when re-starting the growth of the economy - there should be special attention paid to the development of infrastructure, which is, for that matter, also justified in respect of a greater involvement of foreign working capital and the solution of the most urgent social problems (e.g. the housing shortage).

Re-starting the growth of the economy requires much more effective measures to encourage ventures than so far, more rational and rigorous tax policy and tax control and the increase and controlled utilization of the financial funds available for ventures as support. In addition to the stabilization of the economy the new economic policy outlined above would render it possible to lay the foundations of the strategy of economic upswing, thus the establishment of a humanitarian economy on long term.

Fig. 1.

Calculations of the Finance Ministry for the economic performance of 1991 in comparison with the program of the ministry

Change from the previous year in %, at comparable prices

| | 1991 program | 1991 expected |
|---------------------------------------|-----------------|------------------|
| Gross production | -4.5-4 | -8-6 |
| out of which: | | |
| - industry | -10-5 | -12-10 |
| - agriculture and food industry | -1-0 | -2-0 |
| GDP | -4 | -8-5 |
| domestic use of GDP | -5 | -8-6 |
| out of which: | | |
| - end of consumption | -5-4 | -6-5 |
| - gross accumulation | -5 | -13-9 |
| Foreign trade: | | |
| export | -6-5 | -10-7 |
| import | -7-6 | -10-7 |

Current prices, million dollars

| | | |
|-------------------------------------------|----------|--------|
| Foreign trade: | | |
| export | 11'600 | 11'000 |
| import | 11'800 | 11'300 |
| balance | -200-100 | -300 |
| Balance of current international payments | | |
| in convertible currencies: | -1200 | -800 |