

The Nature and Place of Hungary's post-1990 Capitalism within the World System

Abstract

The present article uses world-systems theory (WST) to analyse the systemic changes that have taken place in Hungary in the last 20 years. The analysis shows the validity of the concept of the semi-periphery, situating Hungary's development ever since the mid-nineteenth century within the hierarchy of the capitalist world economy.

Viewed within the perspective of the *longue durée* it becomes clear that the new (post-1990) capitalist régime did not herald in any sort of endogenous, self-sustaining development process, nor did it succeed in "converging" Hungary with the core countries of Western Europe. Instead, the past twenty years have seen the emergence of a small national bourgeoisie of oligarchic wealth, while at the other end of the spectrum, the percentage of the population living at and under the poverty line have increased at least 3.5-fold, and has by now reached about one-third of the total population.

This model of "same overall performance with more polarisation" has dramatically increased social tensions, as the conflict potentials of Hungarian society outstrip by far the capacities of the ailing political-state structures to mitigate them. Around the time of the system change a brighter future was promised (or at least implied) to millions of Hungarians. As the new régime failed to deliver on these promises, the new political system has been suffering from a chronic lack of legitimacy ever since. These problems of legitimacy manifest themselves in the successful mobilisation campaigns of the far-right, advocating a "second revolution", while denying the reality and authenticity of the system change. In contrast with previous political experiments of the semi-periphery (1919 and the revolts between 1949 and 1989), which were of an anti-capitalist nature, these processes (re)produce a dominance of the Right and in general political reactions which are of a nationalist-conservative and authoritarian nature.

Two decades ago a process of systemic change was launched in Hungary. In order to understand what has happened it is imperative to consider this process historically and to see the emerging problems and sub-tendencies within the framework of more general structural determinants. In terms of methodology this means that we have to use a comparative and historical perspective in our analysis.

As regards the comparative method, let us first have a look at the typology of Post-Communist capitalisms devised by Széleányi et al. This typology classifies Hungary's transition experience as an example of the Central European model (of system change), where the process is shaped primarily „from the outside”, as opposed to the Eastern European model, which could be described more as a „top-down” model, and the Eastern Asian experience which is more of a „bottom-up” phenomenon. Using this typology of transition models makes the Hungarian case easier to understand and reveals more about its nature than if we just analysed it in a nation-state framework. One further reason for the importance of international comparisons is that they clearly show the fallaciousness of the concept of a uni-linear, inevitable historical path – an idea that was asserted or implied by numerous advocates of transitology, and which entered the canon of mainstream neoclassical economic theory under the heading of the so-called „Washington consensus”.

By contrast, according to neo-classical sociology: „The potential multidirectionality of capitalist development can be observed on the widely differing trajectories that ex-socialist countries followed during their years of post-socialist transition. In China, capitalism was built “*from below*”, the State has managed to keep its dominant role throughout the process of transition and the Communist Party has retained its political monopoly, creating a hybrid system, combining patrimonial and legal-rationalistic structures. At the other extreme is Russia where capitalism was built (or rather, introduced – P. Sz.) “*from above*”, with the gradual weakening of the state and strengthening of the oligarchy (this feature

persisted only up to approximately 1999, when Putin stopped this process of disintegration –P. Sz.), creating a neo-patrimonial model of hegemony, where it is the members of the one-time *nomenclature*, and their clientele, who enjoy the most privileged background. In Central Europe, first and foremost in Hungary, but soon after in the Czech Republic, Slovakia, Poland and the Baltic States as well, capitalism was built “*from the outside*”, the dominant group of the economic transition was foreign (mostly multinational) capital. These latter countries are the ones which are closest to the model of liberal capitalism we know from the North Atlantic region, though considering the overwhelming role of foreign capital in the region, these countries can be said to be *more neoliberal* than the countries of the core.” (King–Szelényi, 2006, 297. – my emphasis P. Sz.)

In their highly refined analysis the authors point out a variety of different factors to account for these differences: different régimes of power and politics (patrimonial vs. rational state/power; political capitalism vs. liberal-global capitalism), historical-cultural determinants (taoism, Eastern and Western Christianity).

It is important at this point to comment on two crucial features of the Central European (Hungarian) model: 1. In Hungary the technocracy's triumph over the party bureaucracy meant the victory of the *technocratic élite of the late Kádár-era*, which became the dominant actor amongst the competing élite groups trying to gain control of the transition process due to its *cooperation* with the „superstructure” (institutions) of global capitalism (eg. the IMF, the World Bank, credit rating agencies, along with their regulations and ideology spread by their seemingly neutral bureaucratic techniques), as pointed out in an important monograph of Erzsébet Szalai (2001, 227-233.).

2. Szelényi and King describe the region as „upwardly mobile”, that is, – ultimately – *converging to (catching up with) the European centre*. As their book was written in 2005, they could not yet see the equally strong counter-tendency to this trend, which in the case of Hungary became palpable in 2006 (we will come back to this question later on, from an empirical standpoint).

Varieties of post-communist capitalism

		Trajectories from socialism to capitalism		
		Capitalisme from below (East Asia)	Capitalisme from above (Eastern Europe)	Capitalisme from without (Central Europe)
Characteristics of the emergent economic formation	Property relations	Emergent private ownership coexists with public property	Privatization by former nomenklatura and their clients	Privatization of corporate sector by multinationals
	Market institutions	Market + state redistribution, central planning	Market + networks (a great deal of barter)	Markets + some network (some barter)
	Nature of authority, type of capitalism	Mixed patrimonial and rational domination = state capitalism	Neo-patrimonial domination = political capitalism	Rational domination: liberal and globalized capitalism
Origins of divergence on the road to capitalism	Initial conditions	Large agrarian sector, low per capita GDP	Completed extensive industrial development, low – to - mid level per capita GDP	Some intensive development, mid level per capita GDP
	Historical-cultural determinants	Taoism	Eastern Christianity	Western Christianity
	Intra-élite struggles	Deadlock in struggles between technocracy and bureaucracy	Bureaucracy converts political capital into economic assets	Technocracy defeats bureaucracy
Economic, social and political outcomes	Economic growth, transitional crisis	No crisis, fast growth so far	Shallow crisis early, but crisis lasts longer	Deep crisis early, but ends sooner
	Integration into world system	Medium	high	Very high

	Direction of insertion into world system	Upwardly mobile, into semi-periphery	Downwardly mobile towards periphery	Upwardly mobile towards core
	Commitment to welfare by employers and state	High (local state corporatism)	Some	Little
	Party systems	One party state	Multi-party authoritarian regime	Multi-party democracy
	Respect for human rights	None	Little	Great deal

In: King-Szelényi, 2006, 180.

Let us now have a look on “modernisation theory”, the dominant mainstream theory of the modernisation process, to confront its predictions with the actual outcomes. An important representative of this theory is Kálmán Kulcsár, whose writings are distinguished by an unusually critical approach. To begin with, his analyses use a Braudelian time-scale, and furthermore, he refers to the problem of the relationship of the periphery with the centre, as the main question is exactly what sort of external patterns will the periphery adopt as a response to its underdevelopment (or backwardness). (This adoption of external patterns of development is inevitable more than ever in today's globalised world economy.) But which external patterns of development exactly? Szelenyi et al. already gave a descriptive answer to this question: the model of the Central European transition is a model led „from the outside”, based mainly on the import of capital (foreign investment) and following the prescriptions of the Washington consensus, as far as economic policy is concerned.

That is: reducing the state, deregulation, privatisation, monetarism in terms of policy, a renewed spread of individualism in social life. Modernisation in this interpretation is identical with Westernisation – that is, if we accept the premise that imitating external patterns is a value in itself, an idea, that Szelenyi and King wisely do *not* adopt. The mechanical concept of „catching up” is only plausible if historical development was indeed linear. But this is obviously not the case. Consequently, it is not possible to transform Hungarian society by simply importing ideas and institutions from the outside and doing so certainly does not lead to „catching up”. (At the other extreme would be the disregarding of the experiences and institutional arrangements of the most advanced countries.) A natural consequence of this strategy is that the adoption of external institutional patterns does happen on a normative and institutional level, but they are not quite internalised as regards the patterns of daily social interactions and hence function differently in their new environment due to the different political culture (which also involves a different motivational background of political actors) and traditions of the adopting country. As Kálmán Kulcsár correctly argues, a successful process of modernisation always has to be built on the actual potentials and opportunities of the given country. Accepting W. Rostow's (1964) distinction between the *two stages of modernisation* (development) Kulcsár writes the following:

„The first stage is that of the *take-off* (or breakthrough), which is followed by a sustained upward curve. It is thus perfectly possible that a given society embarks on the path of modernisation, but then cannot sustain it: the process can slow down or even stop... *Successful modernisation hence requires and manifests itself in an economic and social structure, which – based on the actual parameters and endowments of the given country – can adapt to external and internal changes, creating a social structure that forms the basis for the further advancement of the process.* Finally – and this is a crucial

point in the case of CEE – this requires a *political system* that facilitates a proactive adaptation to the new environment. That is, a political system that is open to necessary modifications in its internal structures, but can also flexibly and continuously react to changes in the (external) input-output relations in which it is embedded. In short, the hallmark and precondition of modernisation as a social phenomenon is the *continuous functioning of the structures of adaptation, that is, laying down the requisite conditions for autonomous development* and adaptability to changes in the external development.” (Kulcsár, 2009, Manuscript, p. 4-5).

Let us call this process – or rather, this ideal type of the actual modernisation process – self-sustaining and self-propelling development – what we are looking for is the dynamics of modernity, the expanded reproduction of material and mental needs, a process that is in no way immune from regressions, but still displaying a clearly upward-moving curve.¹ Can we talk of such a *self-sustaining, autonomous system of modernisation in the case of Hungary, capable of reacting pro-actively to external challenges*? How do the historical and geographical specificities of the country shape this capability to react to external challenges? How should the political system be reformed so that it would be able to perceive and mitigate social conflicts and dislocations, that is, how could its potential to mitigate conflicts be increased? To begin with, it is an open question whether *the desired outcome (ie. modernisation) is (was) possible at this juncture in the case of Hungary*. In other words, *is it possible to achieve autonomous, self-sustaining development (which involves a process of active adaptation on the part of Hungarian society to global and intra-EU processes) with Hungary's semi-peripheral position within the world economy and in the context of capitalist globalisation, which – true enough – fosters interdependence, but of an asymmetrical nature*? Let us try to answer this question. We must be very careful and modest in doing so, as the weight of these problems is a heavy burden not only on those who try to analyse them – scholarly discipline should be able to counterbalance that –, but also on Hungarian society at large. So much so, that the discontent of those at the bottom of the social hierarchy has reached a level that even those at the top cannot ignore it any more – showing how heavy this burden has indeed become.

The phenomenon that a period of rapid growth is followed by one of backsliding is not a new one, on the contrary, it is the *rule* in the case of Hungary (and countries in a similar relative position). The country has never found a way to a pattern of development that is both self-sustaining and whose outcome is a steady “catching-up” process with the advanced Western European centre. The country's history could instead be described as a zigzag of convergence and backsliding. This is especially true if we take into account the difficulty of finding an *adequate standard* for comparisons: when evaluating the success (or failure) of the modernisation project it is not enough to compare the results to what the country had been like before, but one also has to look at the countries which are in the lead at the given historical moment. If our point of reference is only the past of the given country, this makes for a highly

¹ Accepting the relevance of Fernand Braudel's model of different historical time-scales, we can only mention here, that as far as the relationship between mankind and its environment is concerned (which seemed to be a history of unchanging stability) we have probably reached a „bifurcation point” , which could have catastrophic consequences for the whole of humanity. It is possible that the inexorable growth imperative of capitalist profit-making, meaning a merciless exploitation of natural resources is about to irreversibly disintegrate the **biocoenotic** equilibria of nature, the „inorganic body” of humanity.

biased and misleading methodology: instead, it is imperative also to assess the distance from the more advanced group of nations.

The question of modernisation and backwardness (or underdevelopment) in Hungary's social history can be analysed in the context of the regional specificities of Central Europe, or, in the perspective of Braudel's *longue durée*. Furthermore, we propose to analyse the problem with the help of the paradigm of world-systems theory. Let us first indicate some of the determinants of our regional situation.

As far as *the concept (and the related problem set) of Eastern Europe* is concerned, Hungarian historians and social scientists have done a lot in recent decades to operationalise the concept. The path-breaking analyses of Zsigmond Pal Pach (1963, 1987) on social and economic history, followed by the work of György Ránki, Iván T. Berend, Emil Niederhauser and others enriched this concept with their wide-ranging research on regional economic history. Their analyses explained the peculiarities of the region, notably its divergence from Western Europe, by processes of refeudalisation, the emergence and stabilisation of second serfdom, the unfavourable development of the main routes of world trade, in short, by a certain pattern of retarded development.

István Bibó, and in his footsteps the historian Jenő Szűcs² – both of them carrying out research on cultural and intellectual history – intended to show that there is an (at least relatively) autonomous Central European region, that in many respects followed a separate path of development from Eastern Europe and the Balkans, as a sort of intermediate (sub-)region between West and East.

But, while around the “Year of Change” (1948) in Hungary meant imitating the Soviet model to catch up with the West (ending in a failure), in 1989 it was *reintegration into the West* that was considered to be the way leading to catching-up. The concept of a distinct Central European region was instrumental during the eighties in the ideological preparation of the country's reorientation towards the West, as it separated the country historically from Eastern Europe, and above all, from the Russian Empire. Notably, this concept contrasted the history of the latter two regions with that of the West, which was characterised as dynamic, “bottom-up”, based on the separation of state and society, making impossible the stifling of local autonomies and the independence of social groups from above, since the existence of “small circles of freedom” ensure the successful self-defence of society even in periods of centralisation and also precludes the emergence of a distorted, submissive “*Untertan*”-mentality.

However, looking at the historical record since 1989/1991, it is the idea of a unitary *Eastern Europe* that seems to be born out by the facts: the transition from state socialism to capitalism happened with almost perfect simultaneity from Warsaw through Budapest to Moscow, proving that the common characteristics of the Eastern European region are much stronger than the peculiarities of the Central European subregion within it.

The creation of Eastern European state socialism (1947-1949) was as much a common fate, as its demise, which also reveals to what extent processes within the nation-state framework with their

² *Vázlat Európa három történelmi régiójáról*, Történelmi Szemle, 1981/3, 313-357, Akadémiai kiadó, Budapest

characteristic national style and forms are subject to geopolitical and global factors (emphasised by world-systems theory).

In Eastern Europe it was the new political class – having the monopoly on legitimate violence in its hands – that imposed the institutional structures of system change on the region: “[the transition] was carried out *from above, controlled by the state*, what is more, its actual economic and social content was hidden by the national and ethnic categories, in which the project of transition was presented. The so-called subregions [of Eastern Europe – P. Sz.] can still be distinguished by their peculiarities in their social and economic history or their political and “psychological” characteristics, but the – seemingly insignificant – fact that the transformation happened almost simultaneously reveals the *historical unity of the entire region*.” (Krausz Tamás 1994, 191-192.).

It is hardly an accident that federal states were replaced by a large number of independent, but small nation states – *divide et impera!* –, as Czechoslovakia, the Soviet Union and then Yugoslavia disintegrated. Typically, the inferiority complex felt in relation with the West is compensated by ideas of national exceptionalism and feelings of moral or cultural supremacy (which logically lead to conflicts) towards neighbouring countries, a phenomenon that is of course often cynically exploited by local political *élites*.

This “ethnic(ist) renaissance” and – what is considerably worse of course – ethnic wars (in the Balkans and in the former Soviet Union) have been fomented not only by economic and territorial interests, but also from problems of legitimacy and internal power relations.

But then, the question arises: was there a real chance after 1989 of *reviving of Central Europe as such, of its political reintegration*? The commonalities of music, literature or culinary tastes are no doubt part of the fabric of everyday life, but still are not factors that shape historical trends, *if these patterns of everyday life are not linked up to power relations, to political interests and motives*. This was exactly the case after 1989.

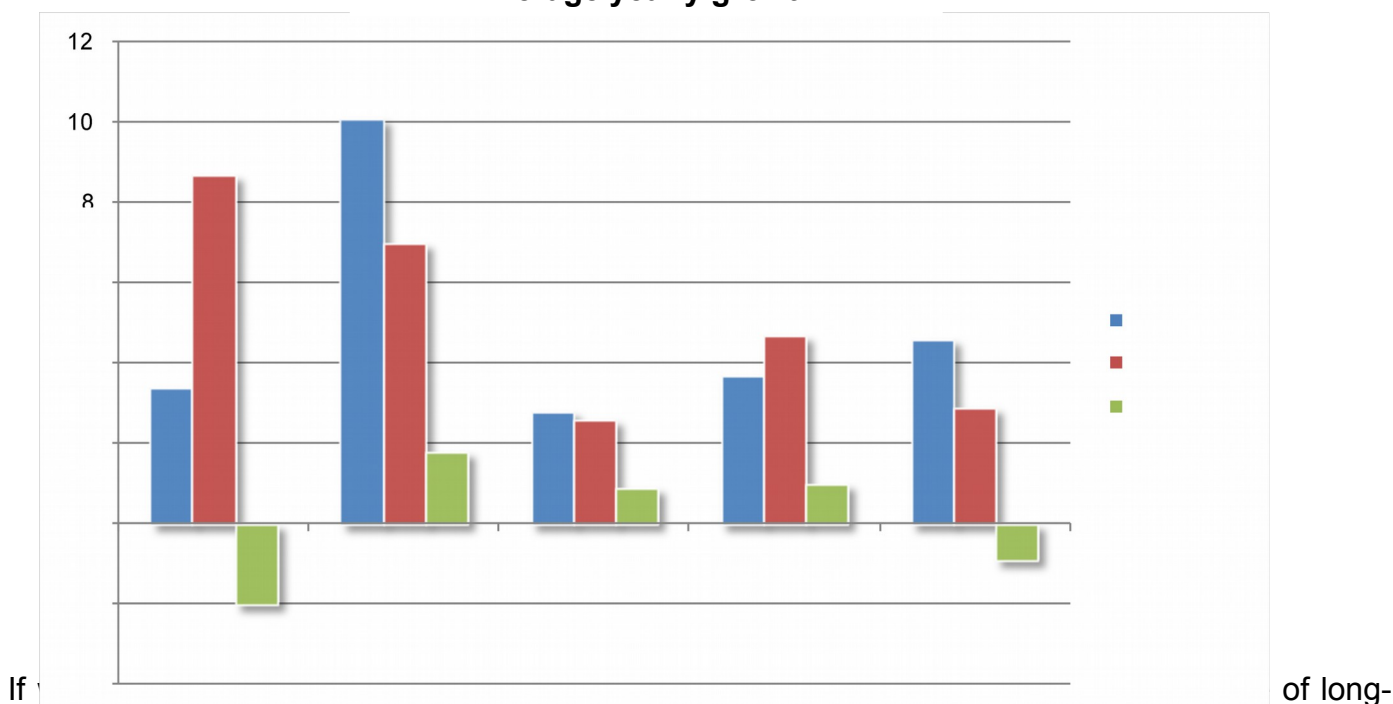
A recent analysis by Maria Ormos (2008) – richly illustrated by material in diplomatic and political history – showed brilliantly, how national history is in fact *not* a story of nation states acting in isolation. On the contrary, it is the influence of the countries of the European centre (Italy, Germany and Austria), geopolitical intentions of the Great Powers and diplomatic machinations from the outside that determined the role (and not rarely the borders) of each state in our region.

The major geopolitical question at the end of the Cold War was the reunification of Germany. Despite fears from the French and Soviet sides, on 13th September 1990 Germany and the Soviet Union signed the treaty of reunification. In that situation the French government – frightened by the possibility of a breakdown of the hitherto well-functioning Franco-German cooperation – reacted by choosing a strategy of deepening and extending the project of European unification and cooperation. This strategy proved to be successful, as the European Community – having realised the fundamental goals of the Treaties of Rome, namely creating a common economic and free trade zone – became the European Union after the signing of the Maastricht Treaty, and with the subsequent creation of the common

European currency, the Euro. Another significant player in CEE has been Austria. Along with Germany and Hungary, after 1990 Austria – trying to increase its influence – steadily supported the secession attempts of Croatia and Slovenia, the main goal of its foreign policy however (from 1992 on) was joining the European Union. The so-called *Visegrád Group*, which first included three member states, then with Slovakia four (Czech Republic, Hungary, Poland, Slovakia) in practice meant no more than sporadic meetings of prime ministers and heads of state, which was another symptom of the fact, that for the countries of the region the *foremost priority was to create diverse links to Western Europe and achieve EU membership*. In the political history of the region there simply was no period, in which a closer Central European integration could have been realistically put into practice. On the other hand “there is no doubt that Germany emerged as a Central European power, and so Central Europe became an extant entity once again. What's more, Germany became a central power in the whole of Europe.” (Ormos, 2008, 281.).

Let us now turn more directly to describing Hungary's experience and start with answering the following question: why did the state socialist system lose its initial upward dynamism, and why did it prove incapable of laying the base of autonomous, self-sustaining development? Macroeconomic indicators clearly show the worsening performance of the state socialist system in its final decades, which emerged simultaneously with the country becoming severely indebted after 1978. In the eighties economic performance was significantly weaker in all respects than in the preceding two decades, with investment and real wages actually declining (Lóránt, 1989.). The failure of the régime to deliver economically led to the erosion of its legitimacy, making its overthrow possible, and hence enabling another system change, once again with the promise of “catching up” with the West.

Average yearly growth



If of long-term historical trends or the *longue durée* then it becomes clear that the country started and has stayed in the group of middle-income, relatively developed countries, having the same relative position within

the hierarchical system of the world economy. True, we do not have homogeneous data, produced by the same statistical methods for all of the last hundred and fifty years (eg. national income, GDP and GNP figures more or less serve the same analytical function, but they are not identical), posing methodological problems, but nevertheless, if we focus on long-term trends and averages and not on cyclical swings a pattern of significant constancy emerges in the country's relative situation.

In another study, we already analysed the historical development of Hungary's economic performance (2009, 85-87.). We did this through looking at macroeconomic indicators which are far from perfect, but still serve as the best parameters for assessing the overall level of development of a country. Looking at GDP and GNP figures from 1860 it can be said, that the distance from the countries of the centre is more or less constant: the Hungarian economy's performance in the last century and a half has been around 60% of the level of the central economies, with deviations of 4-5-6% (if we abstract from short-term swings, and take into account that the data from different periods is heterogeneous, and should be normalised first).

Giovanni Arrighi, one of the most prominent representative of world-systems theory pointed out (1991) that income inequality on a global scale shows a remarkable stability through the 20th century, enabling one to identify a *global hierarchy of welfare*. The gap in per capita national income between the centre (the North or the West) and the periphery (the South/East) *did not* change, or if anything, the gap only got wider. The “Communist” régimes were unable to close this gap, though did not produce worse results either than their capitalist counterparts in Latin-America, South-east Asia or in Africa. From certain standpoints – a more egalitarian distribution of income, a larger degree of independence from the Northern/Western centre – they certainly outperformed the latter. In another article Arrighi described this the following way: the semi-peripheral régimes of Southern Europe and Latin-America “seldom, if ever, purposefully undermined the structural foundations of oligarchic wealth and mass poverty within their domains.” (Arrighi, 1990, 27) In contrast, the state socialist systems – which can be compared to the latter, as they had the same relative position in the hierarchy of the world-system – what happened was the following: “This antisystemic orientation has not been pure rhetoric. In intrastate relations it has found expression in a more or less thorough revolution in the distribution of personal wealth, which has been extensively “democratized” in the sense that, comparatively speaking, oligarchic wealth has been largely eliminated and mass poverty considerably alleviated. In interstate relations it has found expression in a refusal, backed by force, to play the kind of subordinate role in global processes of capital accumulation that has been played by the Southern European and Latin American semiperiphery. Up to very recently, their “doors” have been kept as closed as they could possibly be both to foreign direct investment and (with the exception of Yugoslavia) to recruitment of labor for exploitation abroad. The coercive character of these regimes has been closely related to the pursuit of these antisystemic objectives.” (1990, 29). In 1990 these anti-systemic experiments were replaced by régimes very much conforming to global capitalism's need. Twenty years have passed since then.

If we take Hungary's economic performance from the beginning of this millennium and compare it to the average of the EU-15 states, then we get a figure of 57-58%. (The best years for the Hungarian economy after 1990 were those between 1997 and 2001, with GDP growth of 4-6%. This growth rate then slowed down significantly between 2002 and 2007, and then turned into overt crisis.)

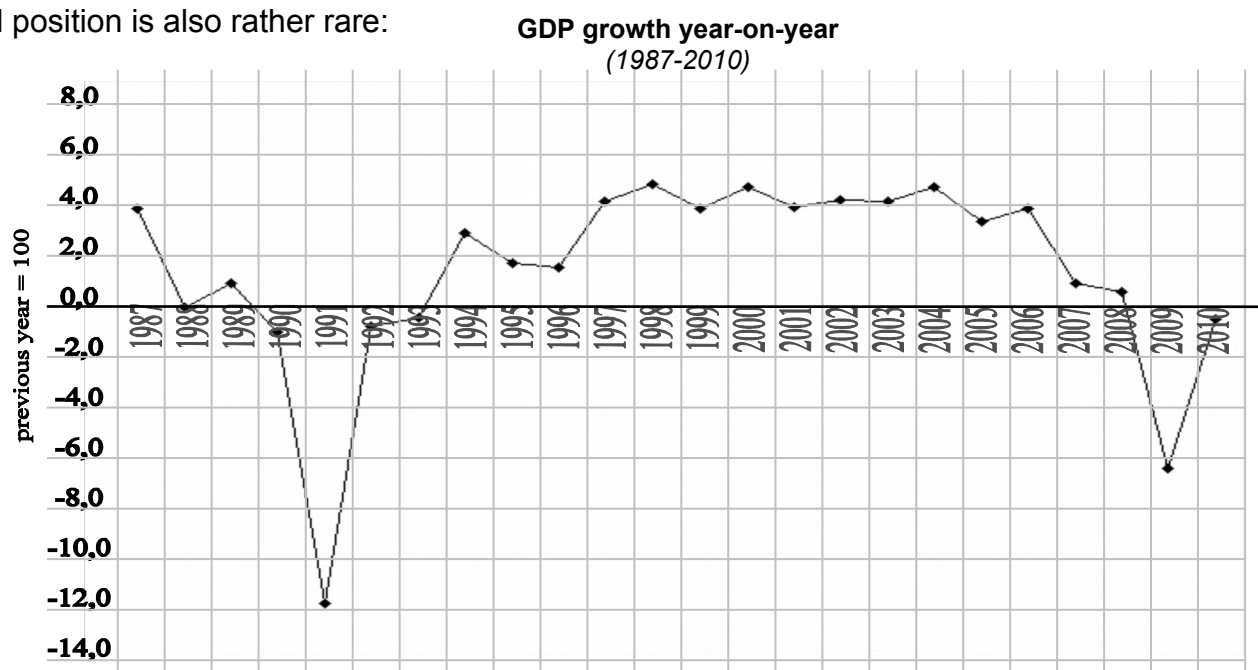
If we take the year 2006 and compare Hungary to the average of the – now expanded – EU-27 (which is a much *smaller* number, due to the entry of Romania and Bulgaria), then we get a figure of 63%. But with the crisis that erupted since then, with the ensuing sharp fall in GDP exceeding the EU average it seems likely that this figure moved downwards again (note that the Eurostat prediction for GDP growth in 2010 is still a negative number, – 0,5%).

But the overall picture is still one of a more or less unchanging level of development relative to the centre, if we look at long-term averages and not short-term deviations. These deviations are within the range of 4-5-6% and can be attributed to given historical periods (1860, 1910, inter-war years, state socialism, last twenty years). It seems to be the case that *relative backwardness*, the peculiarities of the semi-periphery *can not be explained by government policies or even by structural differences between widely differing social formations which existed in the region*. All in all, we can say that despite the fact that profound changes had happened in this region, its relative position in the hierarchy of the world-economy remained essentially the same. The figures seem to bear out the idea of a distinct semi-periphery, with its characteristic and persistent condition of relative backwardness that seems very difficult to overcome. In the case of Hungary this means that the country remained a middle-income nation, and could not move into a higher category since 1979 up until today. Its *typical pattern of development* was periods of rapid growth and (apparent) convergence followed by backsliding, economic turbulence with rising budget deficits, growing internal and external indebtedness and dependence from other countries. This is usually followed by a more or less deeper recession, and the ensuing crisis. The identification and analysis of this pattern – which is also a refutation of modernisation theory – provides the conceptual content of the idea of the semi-periphery.

According to the tenets of WST Hungary has to be seen as a country of medium development, situated on the semi-periphery of the world-economy – a world-economy that is based on relations of mutual, but also asymmetrical interdependence. The mechanism through which this international division of labour is integrated and unified is the *world market*.

The idea of a distinct semi-periphery starts from the sphere of production and refers to a position in the international division of labour. Let us start from Hugo Radice's apposite description of “core activities”: “Activities are defined as core activities if the nodes at which they occur are able to “incorporate most if not all of the overall benefits of the world division of labour”, while peripheral activities are remunerated at levels only marginally above those available outside that division of labour. The mechanism through which this unequal distribution of rewards is sustained is, in essence, that of market structure: businesses and zones engaging in core activities have market power based on superior technology, management and access to finance, while those engaging in peripheral activities

have only generic resources of cheap land and unskilled labour, the markets for which are highly competitive. Core activities vary through time as Schumpeterian processes of creative destruction throw up new dynamic sectors; such processes, they suggest, tend to cluster not only in time, but also in space, forming a locus of 'core capital', and where such activities generate mutually beneficial externalities, a 'core zone.'" (Radice, 2010) The countries of the *centre* are those that through the mechanism of unequal exchange and the movement of capital and labour „some states (often identified as “industrial” or “industrialized”) appropriate a disproportionate share of the benefits of the international division of labor while most other states reap only such benefits as are necessary to keep them in the relationship of unequal exchange.” (Arrighi 1990, 11) The states of the semi-periphery are in an *intermediate position within the world-economy*, situated between the centre and the periphery. „they (namely the semi-peripheries – Sz. P.) reap only marginal benefits when they exchange with core states, but they reap most of the net benefits when they exchange with peripheral states” (Arrighi, 1990, 11.). The founder of WST, Immanuel Wallerstein describes the unique position of these countries the following way: “Under pressure from core states and putting pressure on peripheral states, their major concern is to keep themselves from slipping into the periphery and to do what they can to advance themselves toward the core. Neither is easy, and both require considerable state interference with the world market. (...) They are eager recipients of the relocation of erstwhile leading products, which they define these days as achieving "economic development." In this effort, their competition comes not from the core states but from other semiperipheral states, equally eager to be the recipients of relocation which cannot go to all the eager aspirants simultaneously and to the same degree.” (2004, 29-30). On the other hand – luckily, one might add – it is not so easy to move downwards either: it is only through a rare reconfiguration of circumstances and resources that a country can change its relative position in the world-system. The following diagrams show that backsliding from a semi-peripheral into a purely peripheral position is also rather rare:



The assessment of noted Hungarian economic historians Berend and Ránki still holds up today: „Development and underdevelopment are not two separate phenomena, but the two sides of the same coin, forming a dialectical unity, as certain countries became developed because of other countries sliding into backwardness.” (Berend-Ránki, 1979, 11.). Within the world economy the profits produced are distributed following the hierarchy of the world system, which is a mechanism that creates more polarisation, and not a process of smoothing out. The existence of semi-peripheries differentiates this process, but does not abolish it.

In short it seems that *it is not possible to “step out” or decouple from the world economy*. The most significant historical experiment that tried to do so failed, despite the fact that around a dozen countries were involved in it between 1949 and 1989/91, including the Soviet Union. The only dilemma hence that countries of medium development have to answer is their degree of openness to the world market. If they choose a strategy of autarchy, of reducing their openness to the world economy they will not be exploited and the surpluses (profits) produced can be reinvested in development (or used for consumption) at home. However this strategy necessarily entails isolation, which means not having access to new technological innovations, and work organisation techniques used by more advanced countries. If they open their economies, then they will lose control of their resources and even provide the centre with supplementary resources and markets, and exposing themselves to the dangers of economic crises, which usually prove more devastating for them than for the centre, as the latter has its own mechanisms to pass on some of the consequences of crises to them. On the other hand, openness provides them with access to new technologies and organisational practices, that they do not have to develop themselves on their own, from their own resources.

Openness also means opening the field to the dynamics of desires and needs that they cannot satisfy (or can only satisfy partially) due to their limited internal resources. Turning towards autarchy would presumably reduce the needs and desires of their populace, but in order to do so these states would also have to restrict personal freedoms and try to block the free flow of information. This is arguably an undertaking that is doomed to fail in today's world of mass communication networks, not to mention its inherent political dangers, such as making the political system vulnerable to crises of legitimacy. It seems to be almost a mission impossible to find the right proportions – *in concreto* – with this dilemma.

Hungary's “new” capitalism is open to the world market to an extreme degree. As a result, it suffers all the drawbacks of doing most of its trade with the centre, first and foremost with Germany (this is of course a huge change from 1989: up until then the country's main trade partners were other socialist countries, with the Soviet Union at the first place). What is an advantage from the standpoint of technological innovation and – in some respects – work culture is a disadvantage if we look at other aspects of this configuration (worsening terms of trade, a high level of exploitation, a commercialised mass culture freely spreading needs and desires that cannot possibly be satisfied on the semi-periphery). The dilemma of semi-peripheral states is not reducible simply to the dilemma of openness vs.

autarchy. Another factor to be considered is that in today's global capitalism new competitors emerge that often represent larger blocs of economic power than – in the case of Hungary, for instance – the entire national economy.

It is instructive to have a look at the data supplied by Robert Went (2002), just to get an impression of the size of these new actors and just how much the scales have changed. Went enlists the 99 largest economic entities of the world (from 1998), based on their GDP or (in the case of corporations) total return (2002, 43-45). The first 23 places are occupied by the major nation states, but on the entire list, the proportion of states to corporations is almost one to one (50-49). A middle-income and middle-size country like Hungary can only be 90th on the list, whereas Ukraine – which has a large territory and population – is only 99th. Hungary's total economic output is exceeded by the returns of 41 transnational corporations, and for a significant number (13) amongst these the difference is more than two-fold. This shows clearly the difficulty of staying (or becoming) competitive in today's globalised capitalism. It is not clear what extra resources there are which could enable countries like Hungary to catch-up with the West, which enjoys huge historical and structural advantages.

So what is the overall balance of the system change after 20 years. Against the assertions of the Hungarian far-right we must first say clearly that the system change *did* happen. The existing problems of society stem from the simple fact that *the new system can only deliver so much*. It is the drastic diminution in the working population – at least one million down from the 1989 level of 4.8 million – that is the Gordian Knot the new system cannot cut.

Because of this basic change in class relations, *the domestic industrial reserve army expanded enormously*. By 1993 the new – extremely low – level of employment typical of the post-1990 era basically stabilised³. This resulted in a huge number of people dependent on the state and a very thin tax-paying base, that nevertheless has to bear the entire burden of taxation. This means high taxes and a low savings (investment) rate. *The performance of the new system on the aggregate level (in terms of total economic output) is more or less identical to that of the state socialist system, but with a much more unequal distribution of resources and incomes*. A few hundred thousand-strong *élite* lives in circumstances of oligarchic wealth – one of the rare instances of successful *catching-up* with Western standards, one might say – whilst the number of people living under or around the poverty line grew by at least 3,5-fold (encompassing by now almost one-third of the population). If we look at income inequality through comparing the incomes of the uppermost and bottom decile of society, than we can see that the difference grew from the 3,5-fold of the late Kádár-era to 8-9-fold today.

In these 20 years a new underclass emerged, masses of people who are not integrated into society; the most extreme case being the Roma. At the same time welfare provisions have been rolled

³ One of the worst decisions of the Hungarian political class was the destruction of the highly successful system of agricultural cooperatives (which also meant the elimination of the adjoining system of small-scale household **production**) – a decision that was foolish even from their own point of view. To wit, this meant the full-scale *proletarianisation* of large number people who were only semi-proletarian until then. In other words, the capacity of these social groups to reproduce themselves on their own was destroyed. As Arrighi showed in his comparison between „a highly dynamic and upwardly mobile East Asia and a stagnant and downwardly mobile Africa, and particularly southern Africa—‘the Africa of the labour reserves’” (Arrighi), a mixed model of partial proletarianisation is more advantageous even from the standpoint of capital, than complete proletarianisation through the full-scale expropriation of agricultural land. With the latter arrangement the rate of exploitation (s/v) is necessarily lower than in the case of semi-proletarians, who can partly rely on subsistence production. (We should note that a too high rate of exploitation can affect negatively capital accumulation too, as it reduces effective demand, creating realisation problems and the overproduction of capital.)

back continuously. In short the capacity of the previous system – based on state property – to sustain the population was significantly larger than that of the new system, which is based on private property, created through primitive accumulation, privatisation and compensation measures. It is thus not at all indifferent whether the control over the economy is private or – even if it was very far from any concept of workers' control – public, as it was before 1989.

This model of “same overall output with more polarisation” creates numerous tensions as conflicts grow larger much more quickly than the capacity of the political system – with its limited resources and tools – to offer some solution to them.

These problems of legitimacy manifest themselves in the successful mobilisation campaigns of the far-right, advocating a “second revolution”, while denying the reality and authenticity of the system change. This is what made the far-right (*Jobbik-Magyarország* gaining 12% of all seats) a major force in the 2010 elections, and enabled the conservative right (*Fidesz-KDNP*) to gain a huge majority, practically freeing it from constitutional barriers, as it is now enjoying a larger than two-third majority (68% of seats). This new autocratic *régime*, with a strong Christian-nationalist ideology shows clearly just how vulnerable and easy-to-undermine bourgeois, pluralist democracy (with its separation of powers) is on the semi-periphery.

As the Hungarian case demonstrates, the semi-periphery is indeed in no way guaranteed to be “halfway to paradise” (Radice), but Hugo Radice (2010) failed to address the most crucial question that arises here, when he does not clarify the relationship between even and uneven development. Let us not forget, that most experiments that tried to overcome capitalism did not take place in the centre or on the peripheries, but on the semi-periphery. This is no surprise, as it is on the semi-peripheries that exploitation, backwardness, and imperial domination appear in their most concentrated form. What we could call the “Marxist century” lasted from the Paris Commune until 1968 or the Nicaraguan Revolution (1979). Within this period Lenin's theory of the weakest link in the chain had a wide-ranging explicative power and was corroborated many times: 1917, 1919-20, plebeian-democratic initiatives in 1948-49, the Chinese (1949) and Cuban revolution (1959), the successes of national liberation and anti-colonial movements in Central and South America (Chile, Venezuela, Bolivia). Contradictions manifested themselves in their sharpest forms on the semi-periphery (and only rarely on the periphery), much more so than in the countries of the centre, where the abundance of resources always provided a larger elbow room to mitigate tensions and stabilise the system.

To return to Hungary: can (and should) this whole process be called unjust? It is not possible to answer this question with a simple yes or no, or even to give a homogeneous answer. Let us review a few elaborate systems of evaluation to try to answer that question, as the concept of “unjust” used in everyday discourse is not adequate here, being impressionistic, intuitive and easy to manipulate, often motivated by mere envy.

If we take for granted the standards of a society based solely on competition, than the “natural law” of “there are winners and losers” – a ready-made intellectual device imported from the US, currently

enjoying a resounding success in Eastern Europe – justifies any outcome that may arise. Traditional conservatism disapproves of “upward mobility”, as this is supposed to create suffering and frustration, and people should be spared from such “inorganic” social interventions. *Quieta non movere*. If we accept this line of argument then *the diminution/breakdown of social mobility* that happened after 1990 is a just and laudable development, as it restored the natural order of healthy social differences and inequalities.

Christian democratic or Christian-socialist thinking is somewhat more modern and – especially during the Golden Age of the welfare state (kb. 1945-75) – tended to be more sympathetic to democratic, petite-bourgeois egalitarianism, and accept the need for compensatory mechanisms. After the neoconservative turn however this was often replaced by a support for “self-reliance” and charity – with some laudable exceptions of course.

There is a common element in “progressive”, “socially compassionate” Christianity, Marxism and left-leaning liberalism: they all consider *fairness (or justice) the main criterion by which social institutions should be judged*. However, in their concept of *what* is fair (or just) they differ radically. For Rawls, it is enough to ensure that – no matter how large inequalities grow – the situation of those worst off does not get any worse. In the case of Hungary even this modest standard fails to be met, as in the last 20 years the number of people falling into poverty increased significantly, with a huge expansion of the under-class.

For Marxists it is the very *transition to a mode of production based on private property* that creates – as its direct consequence – the polarisation of income distribution (which serves the process of primitive accumulation (Szalai, 2001, 233-240.)), and – as a secondary consequence – state redistribution of incomes going down from 63-64% to 45% (of GDP). This rate of redistribution however is still much too high for leading liberal economists, who would like to see it reduced further, along with public expenditure on health care, social services and education, in order to channel resources to the entrepreneurial class and the financial sector. Evidently, representatives of the liberal mainstream are more interested in fostering healthy capital accumulation than the capacity of existing property relations to sustain the population. This latter viewpoint of course would be the one taken by Socialists.

So much about the question whether the new social system is fair and for whom.

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