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The major failure of the regime change: robber-privatization in Hungary

By Magdalene Csath

Early in the regime change progression, the Nobel Prize-winning American economist, Lester Thurow, still thought that, of the former socialist countries, Hungary had the best chance to close the gap in the shortest time with the developed countries. Nothing more was needed than to make the best use of those abilities which lay at the disposal of the populace: knowledge, creativity and first class educational-research networks. This tallies closely with the substance of a CIA study, published in the *Tribune* on May 17, 1990, according to which, Hungary placed third, behind East Germany and Czechoslovakia, in regard to economic indicators - meaning it was well positioned for rapid development and for closing the gap. Today, 18 years after the regime change, Hungarian economy and society are both at complete variance with those opinions; both are in the direst crisis. There is no mention today that perhaps the next 30 or 40 years will be sufficient for us to reach today's average of the developed European countries in standard of living, economic development and quality of life. Perhaps the most realistic forecast is that we have absolutely no hope of attaining it. Today, there are more and more international analyses, which point towards a permanent lag in the Hungarian economy, i.e., Hungary could find itself on the periphery of development. It is not by accident that, based on current socio-economic indicators, some studies now assign us in the ranks of the developing countries.

Hungary is today under a great deal more foreign debt than it was in 1989, its economy is controlled by multi-national conglomerates, it has scant influence over its own economic affairs, unemployment and poverty are high, and the gulf between the few super-rich and the growing number of extremely poor is widening at an alarming rate, which gulf also threatens to swallow the middle class.

Health care is bankrupt, as is education, and research and development, the very sectors which held the promise of rapid advancement for the country under knowledgeable development. Under this combined pressure, the population is dwindling drastically, as if Hungarians have completely given up on their future -- as if they are contemplating committing collective suicide. Or, to be more precise, as if their leaders were consciously working toward a goal of reducing the population of the country.

What really happened in Hungary? Who did this to us? How did we move from leader to loser? To hopeless resignation? And how was it supplemented, and is still supplemented today, by the unfettered privatization of national assets?

From initial optimism to despondency

At the beginning after the regime change, it seemed that the country chose the right direction: towards creating a democratic market economy. As we can remember, those were the stated aims of the regime change. However, it quickly became apparent that the average Hungarian citizen was left out of the process. The regime change took place without them, behind the scenes. No one had any need for their knowledge and creativity, as praised by Thurow. A small group of financially implicated apparatchiks, assisted by a throng of well paid foreign consultants, decided who can appropriate which state asset, that is to say, who will be able to privatize what. Quickly, behind closed doors and with the total exclusion of the populace, the re-apportioning of state assets took place, assets that were created and accumulated as a result of the combined efforts of the nation. In most cases, the new owners had no intention of operating the cheaply acquired company, store, hotel or other asset but rather -- in the interest of their own rapid wealth accumulation -- sold them, usually at a handsome profit, to foreigners paying with hard currency. As a result of this traffic by the restricted in-group, in a short time many formerly well operated companied went bankrupt and closed their doors, with government complicity. The bogus ideological argument with which privatization was supported ran: “A socialist company can not be competitive in a free market economy.” This was an equally false reasoning, prescribed by economic-political interests, as today’s line that the state can only be a bad proprietor, hence the remaining state assets must be privatized as soon as possible. A regime change aimed at protecting the interests of the majority would have ensured that the corporations were given a chance to adapt to the new situation and, adjusting to the new circumstances of a market economy, try to remain viable and thrive. The future of the businesses was not determined by market forces, or by the purchasers, but by the privatization intent which was intertwined with the rapid wealth accumulation intent of a narrow stratum and the new market and cheap labor acquisition of foreign capital.

The falseness of the arguments can be demonstrated by one of the statements which were made to support privatization: ‘These socialist conglomerates are too big and monopolize the market. Thus, they must be broken up to encourage competition.’ However, after privatization, step by step, a significant slice of the economy came under the ownership or influence of gigantic multinational or global concerns, and far less in number than the former socialist concerns. The negative impacts of the process surfaced shortly: the country’s production fell and unemployment jumped. As a result of the initial privatization agreements, 1.5 million jobs disappeared. The majority of those let go had good professional expertise but, as the company either ceased operations or was transformed, there was no more need for that expertise. And the skill, which is not used, is lost. Thus, from this aspect, privatization resulted in a significant reduction in the knowledge base of the country.

The erosion and disappearance of this knowledge base was not only dramatic at the individual level but also on the state economy. With privatization, one-time long-established industrial traditions disappeared in food production, as well as in mechanized and light industries. The loss of knowledge was particularly severe in those areas which would have been able to serve as the basis for a successful economic transformation of the country.

The numerous erroneous decisions, and their destructive impact on both the economy and society, gradually awoke the people to the reality that the regime change was not about what the politicians had promised. The forceful appearance of foreign interests became more and more evident to all -- and that the local economic-political elite echelon was quite willing to serve it against the nation's interests. Hungary found itself merely shifted from one political interest to another; out of the frying pan into the fire. And those who organized it received their rewards. The true face of the changes became increasingly more difficult obscure, since the people themselves began to feel the growing poverty, the helplessness and the exclusion from events. The majority of Hungarians were not even bit players in a drama directed from abroad, with the help of local assistant directors. There was a power shift in the world; events unfolded not with us but rather against and without us. The regime change did not have a goal that served the nation's interests; the search for the best means of execution was not deemed to require the expertise, knowledge or even the opinion of Hungarian experts. Yet the foreign experts were in no way more knowledgeable in knowing what, or how, could best be done since, on the one hand, they did not know the country and, on the other hand, they also did not have any expertise in the conversion of a socialist system into a capitalist one. History to date did not contain one example to follow. On top of it all, it is evident that these foreign experts were not in the least interested in finding the best solution or direction that reflected the needs of the nation or the people. In fact, it can be proven that the primary task of the foreign 'privatization consultants' was to evaluate the units of the national assets at the lowest possible price and then to assist in the transfer of ownership to their 'real' principals, the foreign interest groups. Clear evidence is their method of evaluation. An important part of the value of a business on the world market consists of its business contacts, market expertise and creativity. Experts call these 'intellectual assets' (or goodwill) and are calculated into the value of a concern being sold. In their evaluation of the Hungarian companies, the privatization experts only took into consideration the financial position of the company and the value of its fixed assets (machinery and buildings). It meant that very important financial elements were simply omitted in arriving at a valuation -- obviously not accidentally.

It is with futility that the government of today pushes the term 'transformation of regime' vs. 'regime change.' Language is wise and people clearly see the difference. We could only have spoken of transformation if we, all of us together, were active participants, authors and beneficiaries of the process; meaning that if the transformation had truly served the interests of the majority of the nation. Istvan Szechenyi said the following about political administration: “Every government’s philosophy is to make the biggest majority happy.” In our case, though, ‘change’ came from above and from abroad omitting, in fact excluding, the majority of the people. The people became conscious of it in short order and became dejected, cynical and distrustful of government. This is one of the major causes why the country began its economic, social and moral descent down the slippery slope. Finally, it must be noted that the entire progression was consciously planned out before the regime change. It must be noted that it was under the Nemeth government, in power from November 24, 1988 to May 23, 1990, that parliament passed the law of privatization, which opened the way for the so-called spontaneous privatizations through which state assets were converted -- unsupervised -- to private assets by the corporate managements appointed by the party state. The net result was that the nation’s wealth, the result of the people’s labor, migrated into the hands of a small clique at prices substantially below market values. However, for most of the ‘new owners’, the acquired business concern only represented an asset to be sold -- for a quick profit -- to foreign interests. Thanks to spontaneous privatization, by 1990, the year of the regime change, a significant portion of economic control was legally in the hands of the former communist cadre. The former ‘dedicated communists’ rapidly became ‘new capitalists.’ It is worth naming who were the leading figures of the Nemeth government who created the legal opportunity for robber privatization: Secretary of State, Imre Pozsgai; Deputy Prime Minister in charge of economic matters, Peter Medgyessy; Minister of Finance until May 10, 1989, Miklos Villanyi, then Laszlo Bekesi; Minister of Industry until 1989, Frigyes Berecz, then Ferenc Horvath; Minister of Foreign Trade, Tamas Beck.

The crimes of the economic policy

The form of privatization that was applied in our country not only caused huge damages by eliminating entire productivity traditions but also eradicated the livelihood of about a million people. Also, it contributed to smashing the formerly established and smoothly functioning economic networks. As an example, we can mention the sugar refining industry. Handing over the refineries to external owners put the Hungarian producers completely at the mercy of foreign companies, which could extract concessions from Hungarian growers of sugar beets by the threat of importing the product from abroad. This they were able to do with equanimity, since Hungarian economic policy was first to open its markets completely, or enter into market liberalization. Today, with one exception, all the sugar refineries are closed. They reaped what profits they could, then folded their tents and left. But before they went, they made sure that the factories could not be restarted later: the buildings were razed. This was conscious destruction.

Is knowledge imported or created?

Hungary started off on the wrong road at the very beginning of the regime change.

The Hungarian leadership chose, for the country's fate, a rudderless economic policy, tied to the interests of foreign capital instead of building on local abilities, knowledge, successful agricultural traditions and innovations. It effectively meant that any improvements were expected -- and are still expected today -- to be delivered from foreign investments. To this day, it (the government) has no confidence in the Hungarian people, in the Hungarian entrepreneur, offering no help or assistance to them. Foreign capital, on the other hand, can count on sweeping concessions: free land, buildings, infrastructure, tax incentives, and often tax free status. The most recent examples are the significant government subsidies given to the Korean tire factory and Mercedes-Benz. These concessions are withheld from Hungarian owned companies by their own government. In fact, they are encumbered with increased burdens and their activities under stricter controls. This is done in spite of the fact that currently Hungarian businesses provide more jobs than the over-subsidized foreign corporations. This, of course, leads to the unfortunate situation that the majority of Hungarian commerce is faced with a huge competitive disadvantage vis-à-vis foreign multi-nationals. A necessary addition to the policy of favoring foreign capital was the weakening of the trade unions, minimizing the rights of workers and keeping wages low. This economic policy is called the policy of 'competing on cost' by experts and represents an advantage, or profit, only for leasehold corporations but adds nothing to the development of a nation. This economic policy is a policy of short sightedness, servility, passivity, relegates national interests into the background and entrusts our future to others. A Harvard economics professor, Dani Rodnik, said the following about competing on cost: "Competing on cost diminishes and grinds down. It is in no way a forward looking, constructive strategy of which to be proud. In fact, it is to be ashamed of."

Michael Porter, internationally renowned expert on competitive advantage, also a professor at Harvard, wrote: "Competing on cost increases vulnerability. Companies will always find another country, which offers even cheaper sources of power and governments willing to give even larger subsidies. Countries competing on cheap labor costs will wake up to find that companies have moved on to another jurisdiction with even cheaper costs." It is exactly what is happening today. With the arrival of the economic crisis, foreign owned companies are closing their doors, or cutting back production, exactly those foreign concerns who received huge subsidies since the regime change and who took huge profits out of the country. In spite of it all, the government is fanatic about continued privatization; then it wastes, without restraint, most of the money thus raised. The national wealth thus disappears without creating new value for the benefit of the country. Hungary today is the prime example of devastating government. While we were still at the top at the time of the regime change, today we are a distant last. Compared to the other post-socialist countries, the nation's GDP continues to shrink, the standard of living is declining, debt is climbing, the state of the health of the population deteriorating and the knowledge base is eroding. It seems that the general malaise is both intentional and conscious. It will be expedited by the latest IMF loan, for which the IMF is demanding strict conditions. These conditions will not, however, affect those who took the country into bankruptcy but will make the lives of the working class, the families and retirees impossible. It will also spell ruin for the small and mid-sized concerns that were fortunate enough to live through joining the EU.

A moral standard is a national success criteria

The immoral privatization, the unraveling of well run economic systems, the shoddy economic policies all left their mark on the value system, the moral standard and spirit of the people. The lies surrounding the regime change, the corruption associated with privatization and the attendant economic troubles made, and still make, the entire society cynical, depressed and generally ill, in body and soul. Mistrust has become endemic today: people do not trust each other, or institutions but most of all politicians. The sweeping transformations took place in front of their eyes: at universities, the former party secretary becomes a professor of political science, the dedicated teacher of socialist political economy is transformed into the most dedicated fan of capitalism, the extreme Left-wing politician who used to rabidly attack NATO and the West turns into the unreserved vassal of NATO and Brussels. The 'social capital', which consists of a society's value system, norms and the trust it has in the existing socio-economic relationships, has been continually weakening since the regime change, in fact falling apart. The same deterioration can be seen in the state of our health and the increasing decline in the birth rate. Research validates that the two phenomena are inter-related. The general shift in values, the eroded social capital and the worsening state of general health are all outcomes of the economy. According to international measurement, those countries with the strongest social values, such as Finland, Sweden or Singapore, are also the most economically competitive and viable countries. It is also not coincidental that they are among the least corrupt of countries. Corruption is that most virulent of viruses that infects a society and corrupts the social values. Finally, social capital deteriorates if, in a given society, personal success and accomplishment do not depend on knowledge, ability or hard work. None of these apply to Hungary. The results of international surveys, but also our own experiences, reveal that promotion and getting ahead in Hungary depends mainly on who you know, who is indebted to whom and who is willing to serve which interests. The consequence is that certain positions are filled by people who are not the most suited for it. The process of privatization was carried out in this manner. Only those Hungarians were able to lay their hands on undervalued privatized national assets who were among the 'select few.'

Conclusion

The 18 years since the regime change can by no means be regarded as a success story. National assets have almost completely vanished; the quality of life and standard of living have both declined. The economy of Hungary has contracted and has become a country dependent on foreign capital, slipping to the level of a developing nation. The recently strong, competitive and successful agricultural sector is moribund; of Hungarian industries there is scant sign. There are no viable Hungarian banks, no independent Hungarian insurance companies.

Hungarian society has reached such a crossroad where minor adjustments and tinkering will not bring meaningful results. If we continue down this road, we will be permanently lagging or left behind. The population decline will accelerate and even family assets will be put in peril. For these reasons, the time has come for broad and fundamental changes, a government with different values and perspectives, an economic policy that is new and knowingly strives towards an economic goal, and a moral revival. Every segment, every member, of society must be part of this change because without the willing and comprehending cooperation of the people every initiative is doomed to failure.

The bishop Gyula (Julius) Glattfelder said the following in 1914: “And the moral and economic damage is incalculable, which people suffer, whose leading intellectuals fall from the ethical and moral high ground.”

However, the shift in values, the spiritual-moral renewal, must sweep through all of society. This same criterion is also mandatory for economic recovery. As the Italian economist and sociologist Pareto warned at the turn of the 19-20th century: “A society where truth and morality have been exiled can not be successful economically, either.”

(Translated by Peter J. Csermely)