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The Change of System in Hungary

Although the change of system in 1989 in Hungary was not the product of spectacular political upheaval or mass demonstrations as in the rest of the region, it was driven by processes similar to those operating in the rest of East-Central Europe. Throughout the 1980s economic stagnation was gradually transformed into a withdrawal of trust in the institutions of the socialist state. As early as 1985 this withdrawal of trust was evident in the parliamentary elections of that year when non-communist candidates were elected to parliament for the first time. Furthermore several political leaders failed in their bids to enter parliament, and even where functionaries were successful, many of them were aware of the quiet, though growing distrust of much of society for the government. This awareness of the weakness of their position when combined with the fear of many functionaries of a repeat of the unrest of 1956 gave an impetus to reformist opinion within the party itself. This explains the willingness of the Hungarian party to lead the process of reform, thus ensuring the success of negotiated revolution in 1989, and the strength of post-Communist political forces in the new Hungarian Republic.

As is in the rest of the region from the beginning of the decade onwards, Hungarian society was marked by increasing political activity. Over the course of the decade new, unofficial organisations sprang up consisting of pacifists, Christians, environmentalists, and human rights activists. They formed the background to growing intellectual opposition to the regime, as differing groups

within the intelligentsia began to co-operate around an agenda of democratisation. This co-operation bore fruit in 1985 with a meeting of the intellectual opposition to the regime at Monor, close to Budapest. Furthermore the following two years witnessed the unofficial publication of political programmes calling for democratisation and the application of market principles to the economic sphere.

By 1987 the old guard within the government was replaced with a new technocratic administration led by the former Budapest party secretary and heir apparent, Károly Grósz. This government aimed to solve the problems of the economy through the adoption of a radical programme of reform that added up to an unspoken public admission of the seriousness of the crisis. The government aimed to restrict the money supply, to reduce the public debt and close the balance of payments deficit. It combined this macro-economic policy with a programme of micro-economic structural reform. This consisted of a major transformation of the taxation system with the introduction of income tax, and an attempt to commercialise the state run banking sector in order to allow for more efficient allocation of capital within the economy. The government furthermore began to reduce subsidies to heavily loss making state industries and allowed labour shedding for the first time. By the end of 1987 the socialist state had implicitly abandoned full employment as a policy objective. The government's economic programme stopped short of a radical marketisation of the economy however. The government faced growing public criticism from a confident opposition and from reformers within the party itself. This criticism was fed by considerable popular discontent as living standards fell.

Increasingly the opposition began to form itself into political groupings. Conservative and populist intellectuals formed the Hungarian Democratic Forum (HDF) in September 1987. During the first half of 1988 the Alliance of Young Democrats (AYD) was founded by a group of anti-Communist students at the Budapest University of Economics. At the same time the liberal, dissident opposition formed the Network of Free Initiatives, that eventually became the Alliance of Free Democrats (AFD). The monopoly of the Communist trade union was broken with the foundation of a free trade union in the universities and the research institutes of the Academy of Sciences, whilst on the national day, the 15 March demonstrators took to the streets calling for greater democracy.

The party responded to the growing pressure from society by dismissing its top leadership. János Kádár, the party secretary since the suppression of the 1956 Revolution, was removed from his position and replaced by Grósz in May. On both the Central Committee and the Politburo a new generation of technocratic party functionaries dominated. In the Autumn a new government was formed under the western educated technocrat Miklós Németh. At the same time the opposition groups transformed themselves into political parties and demanded free elections in which they would be able to replace the Communists as the governing party. The first parties arose out of the leading opposition groups, the HDF, the AFD and the AYD. They were joined in November 1988 by the first of the so-called "historical" parties - parties that existed prior to the imposition of Communist rule in 1948 - with the re-foundation of the Independent Smallholders' Party (ISP), which won the first free post-war Hungarian national election in 1945. In the first few months of 1989 a string of "historical" parties were re-founded with the Christian Democratic Peoples' Party (CDPP), and the Social Democratic Party of Hungary (SDPH).

This process was given enormous impetus by the first significant measures of real political reform. On 11 January 1989 parliament passed laws guaranteeing the freedom of association and the freedom of assembly. This gave the new parties, unions and organisations a secure legal basis and made inevitable the creation of a multi-party system in the country, though parties themselves were finally recognised in October. The following month the Central Committee of the party accepted the existence of such a system whilst it finally recognised the 1956 Revolution as a "popular uprising" and not the "counter-revolution" it had insisted happened for thirty three years. This opened the way for the re-burial of Imre Nagy, Prime Minister during the 1956 Revolution who was executed in 1958 for attempting to take his country out of the Warsaw Pact. This occurred on the thirty first anniversary of his execution on 16 June 1989. The broadcast of the re-burial which was quickly followed by the death of János Kádár just over two weeks later created the feeling of the end of an era in the country. Indeed before the Revolutions elsewhere in East-Central Europe Hungary was already constructing its post-socialist political order.

The demonstrations on 15 March 1989 represented a clear turning pointing in that they persuaded the regime to begin negotiations with the emergent non-communist political forces. On 22 March these new political movements formed the Opposition Roundtable, designed to prevent the Communist Party maintaining its power by dividing the opposition. Over the next few months the party openly conceded that it would have begin negotiations with the opposition by bringing in to being the National Roundtable. This body consisted of three sides: on one side sat the party, on another the representatives of the Opposition Roundtable, and the final side was made up of representatives of the various

social organisations that were beginning to distance themselves from the ruling party. The negotiations proceeded over the Summer of 1989 and final agreement was reached in September. The agreement in which both the party and the opposition agreed on an overhaul of Hungary's socialist constitution, its constitutional court, the functioning of its political parties, multi-party elections and the penal code established the basis of the post-socialist political order. A new republic based both on "the principles of democratic socialism and bourgeois democracy" was declared on 23 October 1989, the thirty-third anniversary of the outbreak of the 1956 Revolution. Some of the parties objected to certain provisions contained in the roundtable agreement, especially those relating to proposals that would give the president strong executive powers. They collected sufficient signatures to force a referendum on these issues in November 1989. The referendum overturned the clauses of the agreement that related to the presidency creating a strongly parliamentary system.

Opinion polls taken during the Summer of 1989 indicated that the Communist party would be the likely winners of Hungary's first free election. Three parliamentary by-elections during the early Summer months indicated however that public opinion was considerably more anti-Communist than such polls suggested. The party itself was in a state of organisational collapse. Intellectuals within the party apparatus had organised themselves into "reform circles" that promoted the democratisation of the party itself. These circles and the opposition they generated among party conservatives led to the formation of several warring platforms. These conflicts came to a head at the party congress held in October 1989 in which a majority of delegates voted the party out of existence reconstituting it as the Hungarian Socialist Party (HSP) with an explicitly social democratic programme. Despite its open commitment to reform the party rapidly

lost support in opinion in part due to a series of scandals relating to the illegal police surveillance of opposition figures.

The collapse in support for the party was also driven by the dramatic events of the Autumn across the region. On 11 September 1989 the Foreign Minister, Gyula Horn, allowed 60,000 East German citizens staying in the country the right to travel to the west precipitating the wave of change that swept the region. By the end of the year Communist regimes had fell in all of Hungary's neighbours, with the exceptions of the Soviet Union and Yugoslavia. These events gave the opposition a greater degree of confidence and underlined to the population the degree to which international circumstances had changed. This clearly undermined the authority of the HSP, whose last acts in power were to draw up treaties with the Soviet Union guaranteeing the withdrawal of Soviet troops from Hungary.

The first free elections since 1945 were held in two rounds on March and April 1990. The HSP was utterly defeated gaining fourth place with just over one in every ten votes. The clear winners were the new parties formed during 1988 and 1989. In the first round the HDF won first place by a narrow margin over the AFD, with the ISP taking a strong third place. Two more parties, the AYD, and the CDPP entered parliament. In the second round, assisted by anti-Communist rhetoric and a gradualist programme of economic reform, the HDF and its allies, the ISP and CDPP won a landslide victory. They were thus able to form a conservative coalition government under the premiership of József Antall.

The Course of Politics, 1990-1999

The conservative coalition government's tenure of office was not to be a happy one. It took over in the midst of an economic crisis and was dogged by splits between its christian democratic and radical nationalist wings. This dispute led to a split with the leader of the radical nationalists, the anti-Semitic writer István Csurka, leaving the HDF in 1993. The government was undermined by a dispute over the restitution of agricultural property confiscated under the Communist regime, a dispute which split the Smallholders' Party, with radicals led by the party leader, József Torgyan, walking out of the government and supporters of compromise remaining inside. The government found itself accused of authoritarianism, a charge related to its attempts to pack the staff of the state controlled media with its own political appointees, whilst its strident nationalist rhetoric in relation to Hungarian minorities living in neighbouring countries attracted widespread criticism. On top of all this the Prime Minister, József Antall was seriously ill with cancer and finally died in December 1993 to be replaced by his Interior Minister, the authoritarian conservative, Péter Boross. The centre-right coalition government was deeply unpopular for almost the whole of its term of office and this was reflected by the results of the 1994 parliamentary elections in which the HSP staged a remarkable comeback winning an absolute majority of seats though not of votes.

The HSP formed a government led by its leader, the former Communist Foreign Minister, Gyula Horn based on a coalition with the AFD. In spite of a faltering start the government pursued a technocratic liberal policy of reforming the economy. In 1995 Lajos Bokros, a respected banker, was appointed Finance Minister and he presided over a dramatic package of tax rises combined with savage cuts in welfare spending. Though Bokros resigned in February 1996 his policies have continued and have been accompanied with a policy of widespread

and rapid privatisation, which has included as its flagship the sale of public utilities in the energy sector to foreign investors. These policies, which will be examined in more depth later, were highly unpopular, leading to a fall of 9% in real incomes during 1995, though living standards stabilised in 1996 and increased throughout 1997 and 1998.

This was, however, not enough to save the government when it sought re-election in May 1998. The unpopularity of its economic policies combined with a series of damaging corruption scandals. Though in the first round of the elections the HSP retained its position as the largest political force in the country this concealed major changes to the party system and a significant swing to the right among middle class voters. The CDPP, riven by splits, failed to win seats in parliament, whilst the HDF was only able to retain any parliamentary seats at all because of an electoral alliance with the AYD. The extreme right-wing Hungarian Justice and Life Party led by István Csurka won over 5% of the vote and its first seats in parliament on the basis of an explicitly anti-Semitic programme. The AYD, re-packaged as a centre-right party in the mould of the British Conservatives, took 28% of the vote, whilst Torgyan's Smallholders increased their support. Support for the Socialists coalition partner, the AFD, collapsed, and for the first time since 1989 right wing parties won over half the votes on the first round. This translated into a comfortable, though not overwhelming second round victory, for the centre-right parties.

A new coalition government was formed by the AYD, ISP and what remains of the HDF, under the premiership of AYD leader, Viktor Orbán. The new cabinet was largely composed of little known technocrats and has broadly continued the liberal economic policies of its predecessor. It has combined this with an

authoritarian attitude towards the media and the academy, though its conduct has to date not attracted the same degree of criticism that the Antall government attracted in the early 1990s. Local elections in October 1998 broadly confirmed the results of the May elections. They revealed a sharp difference, however, in voting behaviour between Budapest, which voted for the left, and the rest of the country. Furthermore, and more worrying they demonstrated a growing willingness among lower middle class voters in urban areas to vote for the extreme right.

Hungary's Post-Socialist Political System

Hungary is formally a multi-party democracy based on the rule of law. It is a republic with a head of state, a unicameral parliament and a written constitution enforced by Constitutional Court.

Hungary has a President of the Republic who is elected for a five year term elected by parliament. The President is mostly a ceremonial position though he does have the power to sign laws, and formally appoints the government and its members as well as having the right to decide on the dates of parliamentary elections. The current president is Árpád Göncz who was originally elected on 3 August 1990 and was re-elected to serve a second term on 19 June 1995. There is currently considerable speculation about Göncz's successor. Commentators expect that the current governing coalition will support the candidacy of ISP leader, József Torgyan, when the elections are held in 2000.

The government, though formally appointed by the President of the Republic, is directly accountable to parliament and its composition is based on the majorities

in that body. Ministerial level appointments must be confirmed by parliament. The government is headed by a Prime Minister, and can only be removed by a so-called constructive vote of no-confidence in parliament.

Hungary has a unicameral parliament consisting of 386 members. It sits for a term of four years and has powers of legislation and supervision over the government. Its members are directly elected through three different routes. In the first directly elected parliament which sat from 1990 to 1994 no single party had an absolute majority of parliamentary seats the largest political party was the conservative MDF, in the parliament elected in 1994 the FIDESZ have enjoyed an absolute majority, and in the parliament elected in 1998 no party holds an overall majority although the FIDESZ are the largest party.

Parliamentary elections have to be held every four years. Elections are held over two rounds, and have been held in March and April 1990, May 1994, and May 1998. In Hungary all citizens over the age of 18 are entitled to vote. Voting is by secret ballot and although there have been accusations of minor irregularities, the 1990, 1994 and 1998 parliamentary were judged by the overwhelming majority of international observers to have been free and fair. Voters have the opportunity to participate at several different stages in the election process and in several different ways. These stages are firstly, the nomination process, the first round of voting, and the second and final round of voting. Members of parliament can be elected in either one of three ways, directly from an individual single member constituency, through the county list or on the basis of the national list. Below the system will be explained through explaining the various components of the electoral system.

The basis of the nomination is the individual constituency. There are 176 individual constituencies in Hungary, each of which contain around 50,000 electors. For a candidate to gain a position on the ballot nomination tickets are issued by the local electoral authorities to eligible voters who must sign them and return them to the candidate of their choice. A candidate must gain 750 signed tickets to appear on the ballot in the individual constituency. In order to figure on a county list a given party must contest seats in 25% of the seats, or a minimum of two constituencies in the county in question. To qualify for a position on the national list a party must figure on at least seven of the nineteen county and the one Budapest list. The system has been much criticised and accusations of irregularities have concentrated on fraud perpetrated by candidates at this stage in the electoral process. Such allegations resulted in criminal investigation during the early stages of the 1994 election campaign in the towns of Sálgotarján and Veszprém.

For the individual constituency section Hungary is divided into 176 constituencies, each of which returns one member of parliament. In the first round voters are asked to cast a vote for one candidate. If a candidate secures 50% of all votes cast in the constituency plus one that candidate is elected. If no candidate secures this result, then the top three candidates, or all those candidates scoring 15% or more of the first round votes goes through to a second round. In the second round a plurality is sufficient for a candidate to be elected.

The remaining 152 seats are elected on the basis of proportional representation where seats are allocated according to two variations of a party based list system. Most of these seats are decided on the basis of county lists. Voters must

in the first round of voting cast a vote for a party alongside their vote for an individual candidate during the first round of voting. The results determine the allocation of seats where members are elected from county lists. A party or list must score 5% or more across the country in order to qualify for any seats allocated on the basis of proportional representation. Members elected on the basis of the national list are not directly elected; this acts as a kind of top up and the distribution of seats is decided by the National Election Commission after the result of the second round and are allocated according to a complex mathematical formula.

Hungary has a written constitution which guarantees a wide range of basic rights and is enforced by a Constitutional Court. The Constitution is a substantially amended version of the 1949 constitution which laid down the fundamental legal bases of the "dictatorship of the proletariat" at the beginning of the Stalinist years. In 1989 following the Round Table agreement the constitution was radically amended to allow for the introduction of a multi-party system and the rule of law. Initially the introductory clauses stating that Hungary was a "peoples democracy" were deleted and replaced with the phrase that "Hungary is a republic, based equally on the principles of bourgeois democracy and democratic socialism". In 1990-1991 this was again amended with references to "democratic socialism" deleted from the constitution and replaced with an assertion that the republic is based "on the rule of law". The Constitution guarantees many basic human rights, though it is important to mention that there is pressure from certain quarters, especially the liberal AFD to conduct a root-and-branch overhaul of the constitution.

The Constitutional Court exists to examine the constitutionality of already existing law. Constitutional court judges are elected by parliament for nine year terms, though until the Summer of 1997 the court had not worked with the total number of judges laid down by the constitution. Judges are banned from political activity and must be strictly independent. Citizens' have the right to appeal directly to the body. The Court has been very active in striking down legal provisions which it believes to be unconstitutional, most spectacularly striking out several elements of a package cutting social security benefits targeted at families in June 1995. Controversial decisions have prompted accusations that court decisions have been politically motivated though the evidence for this seems to be quite scant.

There are currently five political parties that gained parliamentary representation through the proportional representation element in the parliamentary election process in May 1998. These are the Hungarian Socialist Party (HSP), Alliance of Young Democrats (AYD), the Independent Smallholders' Party (ISP), the Alliance of Free Democrats (AFD) and the Hungarian Justice and Life Party (HJLP).

The Hungarian Socialist Party

The party which is estimated to have 40,000 members is the direct descendant of the Communist Party. It was formed at the 14th Congress of the Communist party when it accepted the end of its "leading role" in society. The Prime Minister between 1994 and 1998, Gyula Horn, who was the Foreign Minister in the last Communist government became party president following the party's devastating electoral defeat in the first free elections in 1990. It won power in the May 1994 parliamentary elections winning a comfortable absolute parliamentary majority in

its own right on only 32.96% of the votes cast in the first round. It won broad popular support across all age groups and social classes, though its support was particularly concentrated among urban, working class voters and performed generally very poorly among the very young and the very old. Though it lost power in May 1998 it did so not because of its own performance - it retained its share of vote, and polled more votes than any other party - but because of the poor performance of its liberal coalition partner. In Summer 1998 Horn resigned as party leader and was replaced by the former Foreign Minister, László Kovács, who is now the leader of Hungary's opposition.

Over the course of the last ten years the party's programme has shifted from being social democratic to one which is better characterised as technocratic-liberal. It has abandoned its support for generous family welfare benefits and for state guaranteed pensions as under the pressure of Hungary's poor budgetary situation it means tested family welfare benefits and has moved in the direction of pensions substantially supplied by the private sector. In government it supported massive privatisation and high taxation of those on relatively low incomes and of consumers. In terms of foreign policy it advocates a policy of pacification with Romania and Slovakia over the issue of Hungarians living in those countries and is strongly committed to Hungarian membership of the EU and NATO. László Kovács has been closely associated with these shifts, and his recent public pronouncements suggest that he is not likely to significantly alter this policy formula.

The party will find it very difficult to benefit from future government unpopularity. The HSP is discredited as far as much of the Hungarian electorate is concerned. Its appeal to the left within the Hungarian electorate was seriously undermined

by the social and economic policies it implemented in government between 1994 and 1998. This is compounded by memories of the party's involvement in several corruption scandals which have raised questions about the way in which the party's Communist past translates into its collusion in corruption and in the various links which are widely believed to exist between various arms of the state, business and organised crime.

The Alliance of Young Democrats

The AYD was founded in March 1988 by a group of law and economic students at the Karl Marx University of Economics in Budapest as a counter organisation to the official Communist Youth Movement. It sat on the Opposition Round Table and along with the AFD refused to sign the agreement which came out of it, campaigning against early presidential election in the 1989 referendum. It contested in the 1990 election and won 22 parliamentary seats with a campaign focused on youth. Its fresh image and the ineffectiveness of the AFD as the main opposition party allowed the AYD to lead in the opinion polls for much of the 1990-1994 parliamentary until 1993. In that year it changed reforming its structures, adopting an identifiably conservative programme and driving out prominent politicians from its liberal wing. Its leader Viktor Orbán was widely distrusted and came to be seen as power hungry as a result of the struggles around the 1993 changes. These factors resulted in a spectacular defeat for the party in the 1994 election when it won exactly 7% of the vote and only 20 seats. Since then it has staged a remarkable comeback re-packaging itself as a modern conservative party. In the 1998 election campaign it skilfully positioned itself, outflanking the HSP on the left with policies to abolish student tuition fees and

restore child benefit cuts. It combined this with anti-Communist rhetoric and promised de-monopolisation of utilities privatised by the Socialists.

Its successful election campaign enabled it to win the largest number of parliamentary seats, though not votes in May 1998 and to subsequently form the government. It seems to have broadly continued the policies of the Horn government in the economic sphere, though took a harder line with the banking sector. In terms of social policy it has sought to re-model the welfare state to support the traditional two parent family, and sharply increased the number of police on duty as part of a drive against crime. Its attempts to tighten state control of the media, highly reminiscent of the period between 1990 and 1994, are the major cause for concern at present. Its chances of re-election however depend very much on the performance of the Hungarian economy.

Independent Smallholders' Party

The Independent Smallholders' Party (ISP) is the legal descendant of the Smallholders' Party which won the 1945 elections and acted as the vehicle for democratic conservative politics in Hungary immediately following World War Two. Though never formally banned its organisations were dissolved in 1948-1949 and though briefly revived in 1956 was not fully re-founded until 1988. In the 1990 elections it received 44 seats on the basis of a campaign pledge to restitute all agricultural property confiscated during the Communist era to its former owners. It joined the HDF-led government as a junior coalition partner immediately after the elections and began persuading its partners to adopt the restitution policy with limited success, as their proposals were watered down by

both foot dragging from the HDF and by negative judgements from the Constitutional Court.

In 1990-1991 a split emerged within the party between the largely elderly party veterans who urged compromise over the restitution issue and a more radical, anti-Communist, younger group led by József Torgyan, a powerful right-wing demagogue and leader of the party in parliament. In 1991 using questionable tactics Torgyan was able to get himself elected as president of the party thus provoking a major split in the party. The matter was brought to a head when Torgyan attempted to withdraw from the government over the restitution issue against the wishes of the majority in the parliamentary party, which ended in one county organisation denouncing their president as a "paranoid megalomaniac" and Torgyan expelling a majority of his party's parliamentary deputies from the party in early 1992. The party was marked in the run up to the 1994 election by its presidents' increasingly bizarre behaviour; in 1993 in contravention of the legal ban on parties being named after living individuals he attempted to set up a Torgyan party with his wife as president and his face as the symbol as a possible vehicle for the 1994 elections. When the court refused to register it he loudly complained of his personal rights being breached.

Despite this, and with no election manifesto to speak of Torgyan and his party won 8.85% of the vote and 26 seats in the 1994 parliamentary elections. Exit polls showed he took votes largely from older, poorer male voters strongly disillusioned with the economic situation of post-Communist Hungary.

Torgyan's strong right-wing populism left him well placed to profit from the unpopularity of the centre-left coalition government and its free market economic

policies. A skilful demagogue and a powerful public speaker he has advocated at various times a default on Hungary's foreign debt, cuts in taxation and a large scale "calling to account" of former Communists who have benefited from privatisation. His party also has a strongly nationalistic platform and has vociferously opposed the treaties of understanding that have been made by the Horn government with Romania and Slovakia, which have renounced Hungarian territorial designs on Transylvania and southern Slovakia. Several senior ISP politicians have made thinly veiled racist statements about minorities living inside their country and the inhabitants of neighbouring states, whilst Agnes Macz3, an ISP deputy speaker of parliament found herself at the heart of a storm in Spring 1997, when she made comments which were interpreted as blaming Jews for Stalinism. Torgyan himself has been accused by the Interior Ministry of being a secret police informer during the Communist era, though, significantly the ministry has not made public any documents which would prove this. He also attracted strong public criticism for radical comments made at a 15th March rally in 1996 which were widely seen as inflammatory.

After the 1998 election the ISP joined the centre-right coalition and Torgyan became Minister of Agriculture. The party has become a surprisingly reliable ally of the AYD in the government of Viktor Orb3n. Because of its populist nature questions must be raised about how long any support for the government will last, and the effects its participation will have on economic and social policy in the long term.

Alliance of Free Democrats

The party was founded in November 1988 out of the group of dissident intellectuals based in Budapest. It championed the cause of radical liberalism and in 1989 was the most radical advocate of anti-Communism, parliamentary democracy and rapid privatisation. This radical stance enabled it to break out of its Budapest base and to become a mass party during the referendum campaigns in November 1989. In the 1990 elections it polled over 20% of the votes cast and became the largest opposition party in Hungary's first democratically elected parliament. The party proved to be less than effective as an opposition party and in 1991-1992 was riven by internal division between its Budapest intellectual founders and the representatives of the mass membership it had won in the Autumn of 1989. These were resolved with the election of Budapest intellectual Iván Pető as party president in 1992, something which paradoxically was accompanied by the retreat of many of the party's founders from their front-line roles in the party's internal affairs. Gábor Kuncze, a relative unknown, fronted the party's 1994 parliamentary election when they retained their position as the country's second largest party winning 19.76% of the vote. When the party formed a coalition with the HSP Kuncze was rewarded with the position of Deputy Prime Minister and Minister of the Interior.

As the junior partner in the HSP dominated coalition government the AFD played the role of the guarantor that the government would remain committed to a radical, market based restructuring of the Hungarian economy and the welfare state. This coupled with the perception among right wing voters that the AFD leadership was dominated by those of Jewish origin made the party increasingly unpopular. The 1998 elections saw support for the party slump to 7.72% of the votes cast. This has created a crisis within the party and there is a ferocious debate currently underway about its future.

The Hungarian Justice and Life Party

The Hungarian Justice and Life Party is by far the most significant of the extreme right wing parties in the country. It was founded by the notorious anti-Semitic writer and former HDF vice-president István Csurka after he was expelled from the party in 1993. Csurka himself has written that Hungary has and is still the victim of a Jewish conspiracy orchestrated in "New York, Moscow and Tel Aviv". The party's programme calls for vigorous action to combat foreign influences including strong restrictions on the rights of non-Hungarians to own property and argues for an aggressive foreign policy towards Romania and Slovakia. It performed poorly in the 1994 parliamentary elections winning only 1.58% of the total votes. Despite this it performed well in the local elections later that year largely as part of an alliance with József Torgyan's ISP. The two parties together won 9% of the votes cast for the Budapest assembly and took second place to the HSP in Pest county. The party newspaper *Magyar Forum* is widely available and read and the party has consistently shown that it can organise large demonstrations in the capital since 1994.

In the 1998 elections it entered parliament taking 5.3% of the vote. It performed especially well among urban, elderly, middle class voters angry at the decline in the purchasing power of their pensions. In the October 1998 local elections it has demonstrated that it has the potential to expand gaining around 20% vote in some outer districts of Budapest. Because of the lack of credibility the Socialists enjoy, it is likely to benefit from any discontent with the current centre-right coalition government.

The Post-Socialist Economy

The origins of Hungary's transformation into a market economy can be found not in 1989, but at the end of the 1970s. Hungary's external debt had approached crisis proportions and from 1978 onwards shifted policy towards austerity and the gradual legalisation of the private sector. Small scale private entrepreneurship was legalised and encouraged in the early 1980s leading some social scientists to speak of an emerging "socialist mixed economy" by the middle of the decade. Subsidies were progressively cut from 1979 onwards, whilst serious attempts to rationalise loss making state enterprises began in the mid-1980s. From 1988 onwards it became increasingly clear to policy-makers that further progress could not be made without more savage austerity policies and more radical marketisation.

Large scale privatisation began in 1989, though not without controversy. Anger was directed at so-called "spontaneous privatisation" in which managers effectively transferred the ownership of their companies to foreign investors, often with tacit state approval, under terms preferential to themselves. During 1990 and 1991 the institutions of a market economy were put in place with the creation of new procedures for financial services, the stock exchange and the central bank. A Bankruptcy Law was introduced at the same time, though was not implemented until 1992. A state property agency was created to supervise large scale privatisation.

These attempts to introduce the institutions of a market economy did not occur under the most auspicious circumstances. As a result of the collapse of socialist regimes elsewhere in East-Central Europe and at the insistence of the IMF

rouble trade collapsed. As a result the markets for much of Hungarian industrial and agricultural production disappeared overnight. This coincided with the end of the 1980s boom in western Europe, and with the introduction of severe austerity policies elsewhere in East-Central Europe. The result was a severe recession, as GDP fell by 20% between 1990 and 1992. Unemployment increased reaching 11% in 1993, whilst real wages fell catastrophically. Government attempts to reduce subsidies met with unrest, most dramatically when the government attempted to increase petrol prices in Autumn 1990 and had to climb down after taxi drivers blockaded key transportation routes in protest. The recession combined with accelerating inflation that stood at over 20% by 1993.

During the years of recession the budgetary situation improved. The external debt burden fell, the budget deficit was reduced, and the balance of payments fell. By 1993 the government faced with an election in 1994 began to stimulate the economy. It relaxed its control of public expenditure and eased credit restrictions. Despite Hungary's success in attracting foreign direct investment - up until 1994 it attracted about two thirds of all FDI in East-Central Europe - this had not transformed the economy. The economy failed to respond and demand increased, with the result that inflationary pressures grew throughout the Hungarian economy as the balance of payments deteriorated.

It was this situation that the HSP-AFD coalition government inherited in 1994 and with which they had to deal. Public opinion surveys revealed that the HSP owed their election success to growing scepticism in the electorate about the desirability and feasibility of market based transformation strategies. Furthermore the heavy industrial lobby, consisting of the directors of large state corporations, could exert considerable influence within the HSP and acted as a break on

further economic reform. Technocrats within the HSP, led by the new Finance Minister, László Bekési, and the junior coalition partner, the AFD, called for an acceleration of market based reform combined with decisive measures to ease the country's balance-of-payments problem. The first months of HSP-AFD rule were ones of drift with Bekési, insisting on a neo-liberal solution, and the Prime Minister Gyula Horn, who was widely believed to favour a more social democratic approach.

Bekési managed to put through a package of mild tax increases, spending cuts and moderate devaluation in the second half of 1994 but these failed to significantly ease the situation. Bekési resigned in frustration at the beginning of 1995 and a crisis ensued. There was a significant problem of capital flight during the first two months of the year and the possibility of a currency crisis loomed large. The new Finance Minister, Lajos Bokros, a technocrat and banker, insisted that he be given the authority to deal with the situation. Horn, chastened by the crisis and by threats from the AYD, gave way to Bokros. In March 1995 an austerity package was unveiled designed principally to restore investor and IMF confidence in the Hungarian economy. It sharply increased taxes and cut welfare spending, means testing family allowances and abolishing supplementary child support. Tuition fees were introduced in Higher Education whilst a round of large scale public sector staff cuts was announced. The Forint was sharply devalued and was then to be subject to a rolling series of smaller monthly devaluations whilst in order to reduce imports an 8% levy was introduced.

In 1995 micro-economic transformation accelerated. Responsibility for privatisation was removed from the Ministry of Industry and Commerce and given to a new Privatisation Minister. As a result privatisation speeded up with the sale

of Hungary's energy utilities to foreign investors that occurred during 1995 and 1996. During 1995 Bokros began to draw up detailed medium term plans to reduce welfare expenditure that included a greater role for the private sector in pension and in health care provision. Cash benefits were to be increasingly means tested and the welfare state was to be generally downsized.

The Bokros package, as it had become known, became the major political issue in Hungary during 1995. It led to a general fall in real wages, depressed demand, and led to zero growth in 1995 and for much of 1996. The welfare cuts hit poorer families especially hard. 1995 saw increasing public discontent, with an increased strike rate and demonstrations by public sector workers against the government. Opinion polls pointed to a recovery of the right-wing opposition parties. Worried about public unrest and their own re-election prospects the HSP-AYD government began to slacken the pace of reform in 1996. Bokros resigned and was replaced by Péter Medgyessy, a much more political Finance Minister than his predecessor.

The Hungarian economy began to grow in the second half of 1996. In 1998 economic growth was estimated to be around 4%. Living standards began to recover in 1997. Inflation fell below 20% in 1997 and continued to fall in 1998. This picture of general improvement concealed several underlying problems.

Hungary has successfully adopted a strategy based on attracting a substantial proportion of foreign direct investment. Since 1989 Hungary has become a significant motor car producer as a result of investment by Suzuki at Esztergom, General Motors at Széna Gotthard, Audi at Győr and Ford at Székesfehérvár. Székesfehérvár has been held up as an economic success story as a result of

large scale investment by IBM, Phillips and Ford during the mid 1990s. This, however, has led to regional imbalances with the north-west of the country and the capital attracting the bulk of all foreign investment, leaving the south-west and north-east of the country severely depressed. Furthermore most new investment has been greenfield leaving many labour intensive, Hungarian producers are crisis ridden. Ikarus – the producer of most of the Soviet Block's buses under Communism - suffered severe problems during the mid-1990s, steel production has fallen, whilst surviving plants have complained of having no money to invest in modernisation. The banking sector remains debt ridden, and prone to crisis. Revelations about Posta Bánk, then the country's second largest bank, led to the mass closure of accounts by its customers in 1997. The bank was finally allowed to fail in 1998. Despite this serious problems remain in the big, formerly state owned saving banks.

By early 1998 it was becoming clear that the improved economic position was coupled with a recurring deterioration in the balance-of-payments. Medgyessy's explanation that this was simply a symptom of Hungary's success in attracting foreign investment was less than convincing. Instead it seemed that upper and middle income consumers were spending their rising incomes on imported goods, whilst Hungary's overall trading position had been improved, but not transformed by foreign investment.

The HSP-AYD government presided over renewed economic growth in its last full year of office though this was insufficient to persuade the population to re-elect it. In May 1998 opinion poll evidence suggested that much of electorate did not believe the government's claim that a significant improvement in the country's economic position had taken place. Furthermore the electorate punished the

government for cutting back the welfare state electing a centre-right coalition government that promised to restore some of the Socialists' cuts. The new government has abolished tuition fees in Higher Education though it has equivocated over restoring the cuts in family allowances. Broadly speaking it has continued the economic policies of its predecessor adopting a strategy of pragmatic, market based reform.

The future prospects for the Hungarian economy are difficult to assess. Hungary has re-oriented its exports towards the west, though the effects of the financial crisis in Russia in 1998 on the Hungarian suggest that the degree to which it has done this is exaggerated by official statistics. The last months of the year were characterised by the collapse of a large number of Hungarian companies, particularly in the food processing sector, whilst government provided subsidy packages to some heavy industrial companies tied into the Russian market. More worrying is the dependence of the economies of some of Hungary's immediate neighbours on Russia, and the possible knock on effects this may have on the Hungarian economy.

Conclusion

Over the past ten years Hungary has made steady progress towards the creation of a functioning democratic polity and a market economy. This process has not been problem free. In economic terms despite notable successes, such as the country's ability to attract foreign direct investment, there are a series of major structural problems relating to the distribution of that investment and the imperfect transformation of what used to be the state sector. In the political sphere a broadly democratic political system has been established. There have

been three peaceful transfers of power as a result of free elections since 1989. Despite the ejection of some minor parties from parliament in 1998 the party system is broadly stable. Furthermore Hungary has made considerable progress towards establishing a state fully based on the rule of law.

There are several question marks that must be raised over Hungary's transition. The majority of Hungarians still remain committed to a strong welfare state with a mixed economy based on a degree of state intervention that would contradict the aims of the market reform programmes of the past ten years. There is considerable public disquiet about increasing inequality, corruption and organised crime. As a result there is a disturbing lack of trust between the population and their politicians. Alongside this there is the perceptible rise in influence of political extremists, especially on the far right of the political spectrum. Whilst an overwhelming majority of Hungarians support the democratic political order it is possible that politics in the next decade may be more turbulent than in the last.

Further Reading

Given the lack of good up-to-date overviews of developments in Hungary this chapter has been largely derived from the national press, especially: *Figyelő*, *Héti Világgazdaság*, *Magyar Hírlap*, *Népszabadság*, *Népszava*

For the most important further reading in English please refer to the bibliography. For those who read Hungarian, and/or have a specialist interest in the country please refer to the list below:

Balogh, István *Törésvonalak és Értékválasztások. Politikaitudományi vizsgálatok a mai Magyarországról (Broken Lines and Choices of Values. Political Science examinations of contemporary Hungary)*, MTA Politikai Tudományok Intézete, Budapest, 1994 (an excellent collection of articles on the emergence of the new democratic system just before the HSP election victory in 1994)

Bihári, Mihály (ed.) *A Többpártrendszer Kialakulása Magyarországon, 1985-1991. Tanulmánykötet (The Development of the Multi-Party System in Hungary)*, Kossuth Könyvkiadó, Budapest, 1992 (an essential collection of articles on the early stages of party formation in the country)

Bozóki, András (ed.) *Tiszta Lappal. A FIDESZ a magyar politikában 1988-1991 (With a Clean Sheet. FIDESZ in Hungarian Politics 1988-1991)*, FIDESZ, Budapest, 1992 (a comprehensive collection of documents about the AYD which document its transformation from youth movement into quasi-party between 1988 and 1991)

Bruszt, László *A Centralizáció Csapdája (The Trap of Centralisation)*, Savaria University Press, Szombathely, 1995 (a thoughtful collection of articles on the socio-political dynamics of the transition process by an academic on the centre-left of the Hungarian political spectrum)

Csizmadia, Ervin *A magyar demokratikus ellenzék, 1968-1988. Első kötet. Monográfia (The Hungarian Democratic Opposition, 1968-1988. Volume One. Monograph)*, T-Twins Kiadó, Budapest, 1995 (a comprehensive history of the urbanist dissidents in Hungary from the end of the 1960s to the eve of the

change of system based on personal interviews, and extensive archival research)

Földes, György

Hatalom és mozgalom (1956-1989); Társadalmi-politikai erőviszonyok Magyarországon (The State and the Movement (1956-1989); State-society relations in Hungary), Reform Könyvkiadó-Kossuth Könyvkiadó, Budapest, 1989 (an original analysis of the malfunctioning of the reform Communist model in Hungary from the perspective of a young reformer within the party)

Az eladósodás politikatörténete, 1957-1986 (The Political History of Indebtedness 1957-1986), Maecenás Könyvkiadó, Budapest, 1995 (a history of Hungarian public finance in the Communist years based on extensive archival research. The best introduction to the economic legacy left by the Communists to the new republic in 1989)

Gombár, Csaba et al. (ed.) *Kormány a mérlegen 1990-1994 (Government in balance 1990-1994)*, Korridor, Budapest, 1994 (an informative collection of articles analysing the performance of the conservative coalition government between 1990 and 1994)

Question Marks: The Hungarian Government 1994-1995, Korridor, Budapest, 1995 (a strange collection of journalistic articles dealing with the first few months of rule by the HSP-AYD coalition)

Halpern, László & Wyplosz, Charles (eds.) *Hungary: Towards a Market Economy*, Cambridge University Press, Cambridge and New York, 1998 (an excellent

collection of articles and easily the best introduction to the economics of the transition)

Hankiss, Elemér "Demobilization, Self-Mobilization and Quasi-Mobilization in Hungary, 1948-87", *East European Politics and Societies*, Vol.3, No.1, pp. 13-42, 1988

East European Alternatives, Clarendon Press, Oxford, 1990

"The "Second Society": Is There an Alternative Social Model Emerging in Contemporary Hungary ?" in Fehér, Ferenc & Arató, Andrew (eds.) *Crisis and Reform in Eastern Europe*, pp. 303-34, Transaction Publishers, New Brunswick, 1991 (all of these form part of a highly influential analysis of the system change in 1989)

Pittaway, Mark and Swain, Nigel

"Hungary" in Szajkowski, Bogdan (ed.) *Political Parties in Eastern Europe, Russia and the Successor States*, Longman, Harlow, 1994 (an introduction to politics between 1988 and 1994)

Ripp, Zoltán *Szabad Demokraták. Történeti vázlat a Szabad Demokraták Szövetségének politikájáról (1988-1994) (Free Democrats. A Historical Analysis of the Politics of the Alliance of Free Democrats (1988-1994))*, Napvilág Kiadó, Budapest, 1995 (a useful history of the AFD written largely from the press)

Stark, David "The Micropolitics of the Firm and the Macropolitics of Reform: New Forms of Workplace Bargaining in Hungarian Enterprises" in Evans, Peter,

Rueschmeyer, Dietrich & Huber Stephens, Evelyne (eds.) *States versus Markets in the World-System*, pp. 247-73, SAGE, Beverley Hills, 1985

"Rethinking Internal Labor Markets: New Insights from a Comparative Perspective", *American Sociological Review*, Vol.51, pp.492-504, 1986

"Coexisting Organizational Forms in Hungary's Emerging Mixed Economy" in Nee, Victor & Stark, David with Selden, Mark (eds.) *Remaking the Economic Institutions of Socialism: China and Eastern Europe*, pp. 137-168, Stanford University Press, Stanford, California, 1989 (these three articles are good on the spread of the private sector during the 1980s)

Swain, Nigel *Hungary: the Rise and Fall of Feasible Socialism*, Verso, London and New York, 1992 (the best general introduction in English to the Hungarian economy prior to 1989)

Szalai, Erzsébet *Útelágazás. Hatalom és Értelmiség az Államszocializmus Után (Intellectuals and the State in Hungary after State Socialism)*, Savaria University Press, Szombathely, 1994 (a collection of her pioneering articles on the socio-political dimension of privatisation)

Szelényi, Iván et al. *Socialist Entrepreneurs: Embourgeoisement in Rural Hungary*, Polity Press, Oxford and New York, 1988 (a good guide to the emergence of the private sector in the 1980s)

Tökes, Rudolf L. *Hungary's Negotiated Revolution. Economic reform, social change and political succession, 1957-1990*, Cambridge University Press,

Cambridge, 1996 (an unwieldy, though interesting account of the roots of the system change)

The Author

Dr. Mark Pittaway is Lecturer in European Studies at the Open University. Between 1997 and 1999 he was Lecturer in History at Edge Hill College of Higher Education in Ormskirk, Lancashire. He is a specialist in the contemporary history of Hungary and has worked extensively in the country gaining access to recently opened archive material on the country's Communist past. He has also written on politics and social transformation during the past decade, as co-author (with Nigel Swain) of "Hungary" in Bogdan Szajkowski (ed.) *Political Parties in Eastern Europe, Russia and the Successor States*, Longman, Harlow, 1994. He is currently working on a book, derived from extensive archival research, on industrialisation and social change during the first decade of Communist rule.

Chronology

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|------|----------|---|
| 1945 | April | Hungary "liberated" by Soviet troops |
| | November | First and only free elections prior to 1990. Won by the conservative Smallholders' party. The Soviet occupation authorities force them into a coalition with the defeated left. |
| 1947 | February | Peace treaty signed between Hungary and the allied in Paris. |
| | May | Ferenc Nagy, Prime Minister of Hungary resigns under Communist pressure whilst on a visit to Switzerland |

- August Elections held that are won by the Communists and their left wing allies. They are marred by extensive fraud.
- 1948 June The Communist party merges with the Social Democratic Party forming the Hungarian Workers' Party. The basis of Hungary's Stalinist political order is laid.
- 1953 July Hungary's new Prime Minister, Imre Nagy, announces the "New Course" marking the end of the country's Stalinist era. This prompts a power struggle between Stalinists, led by party secretary Mátyás Rákosi, and reformers, led by Nagy, within the ruling party.
- 1955 April Imre Nagy removed as Prime Minister
- 1956 February 20th Congress of the Soviet Communist party. Khrushchev denounces the crimes of Stalin. Political crisis ensues in the party in Hungary as the Stalinist party leadership is judged to be culpable.
- July Mátyás Rákosi removed from the party leadership
- October - November The Hungarian Revolution. Begins with uprising in Budapest that quickly spreads to the rest of the country. Imre Nagy become Prime Minister. Communist authority collapses.

Hungary withdraws from the Warsaw Pact and calls free elections. The Soviets intervene and install a new government under János Kádár.

- 1957 Repression and political stabilisation of the Soviet imposed regime
- 1958 June Imre Nagy executed for his role in the Hungarian Revolution
- 1958-1961 Successful accomplishment of agricultural collectivisation
- 1962 7th Congress of Communist party, renamed the Hungarian Socialist Workers' Party in 1956, heralds a conciliatory line with society
- 1963 March The regime grants political prisoners an amnesty freeing many former revolutionaries jailed after 1956
- 1968 January The implementation of a major economic reform package known as the New Economic Mechanism (NEM). The system of economic planning is completely overhauled. This heralds a more market oriented kind of socialist economy.
- 1972 November Party hard-liners place a break on economic reform.
- 1972-78 The golden age of reform Communism in Hungary. Living standards increase, yet the economy - only partially reformed -

cannot pay for rising living standards. Hungary's external debt burden increases enormously.

- 1978-79 As a response to a rising debt burden and unfavourable economic circumstances the regime shifts to a more deflationary economic strategy and revived micro-economic reform.
- 1981 Hungary applies for membership of the IMF and the World Bank
- 1985 First multi-candidate parliamentary election since 1947. First non-Communists elected.
- 1987 September Hungarian Democratic Forum (HDF) founded
- 1988 March Alliance of Young Democrats (AYD) founded
- May János Kádár removed as Communist Party secretary after 32 years.
Replaced by Károly Grósz
- November Alliance of Free Democrats (AFD) formed
- 1989 January Party commission announces that 1956 represented a "popular uprising", not a "counter-revolution"
- March The Opposition Roundtable formed
- June The National Roundtable begins.

June	Imre Nagy re-buried
July	János Kádár dies
September	Hungary opens its western border to East German citizens, precipitating revolution in East Germany
October	The Communist Party dissolves itself. It is re-founded as the Hungarian Socialist Party (HSP) The new Hungarian Republic is declared
1990	March-April Hungary's first free and fair multi-party election since 1945. The HSP loses power. A conservative coalition led by József Antall takes power.
1991	June Soviet troops leave Hungary
1993	December József Antall dies after a long period of illness, he is replaced as Prime Minister by Péter Boross
1994	May Parliamentary elections result in a spectacular defeat for the conservative coalition and a landslide victory for the HSP.
June	HSP leader Gyula Horn forms a government in coalition with the AFD.

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|------|----------|---|
| 1995 | March | The Socialist-led government introduces a savage austerity package, known as the Bokros package. |
| 1997 | November | Hungary votes by an overwhelming margin to join NATO in a national referendum |
| 1998 | May | In national elections the HSP-AFD government is defeated by a centre-right coalition led by the AYD |
| | June | Viktor Orbán becomes the country's new Prime Minister at the head of a right-of-centre coalition government |
| 1999 | March | Hungary joins NATO |

Biographies

Potted biographies are included of a select number of the most important figures, i.e. the major heads of governments during the 1990-9 period:

Antall, József

Born in April 1932 in Budapest, József Antall was the son of a lawyer who became a Smallholders' Party politician in 1945, and served as Minister of Reconstruction in the first post-war government. Antall trained as a historian, and participated in the 1956 Revolution. He served out the Kádár era working in the Museum of Medical History in Budapest. When the Hungarian Democratic Forum chose to become a right-of-centre political party in the second half of 1989 he was invited to lead it. He became Hungary's

first democratically elected Prime Minister in 1990, and was to serve for three and a half years. He died in office in December 1993 after a long battle with cancer.

Horn, Gyula

Born in July 1932, Gyula Horn's career was to follow that of a typical Communist party apparatchik. He graduated from the College of Economics and Finance in Rostov-on-Don in the Soviet Union in 1954, returning to Hungary to work as an official in the Ministry of Finance. Controversy surrounds his precise role in the 1956 Revolution, though he has himself admitted that he served in a paramilitary unit alongside Soviet troops. He served in both the party and governmental apparatus, before becoming State Secretary in the Ministry of Foreign Affairs - a position he held between 1985 and 1989. He was a reformist Foreign Minister between 1989 and 1990 opening Hungary's western border and negotiating the withdrawal of Soviet troops. In 1990 he was elected to parliament as a HSP deputy and became party leader later that year. Following his party's victory in the 1994 elections he became Prime Minister, but lost office in 1998. Following his election defeat he resigned from his position as leader of the Socialist Party.

Orbán, Viktor

Viktor Orbán was born in 1963 in the provincial town of Székesfehérvár. As a law student at the Karl Marx University of Economics in the late 1980s he co-founded the AYD, initially as a youth organisation to counter the influence of the Communist youth organisation on the student body. A radical anti-Communist he achieved national prominence at the re-burial of Imre Nagy in 1989 when he called publicly for the withdrawal of Soviet troops. Elected to parliament as an AYD deputy in 1990, he became president as the organisation explicitly transformed itself into a political party in 1993.

Over the next five years he transformed the AYD into a centre-right party of a Western European type. In 1998 he became Prime Minister at the age of 35.

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