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Introduction

James Lennertz
Lafayette College

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INTRODUCTION

The Hungarian Puzzle

Imagine assembling a puzzle — *rejtvény* in Hungarian — without that guiding picture on the box cover. Indeed, both the pieces and the larger image are dynamic and interactive. The essays in this collection provide insightful analyses of noteworthy issues confronting the Republic of Hungary. Even more remarkable is the portrait that emerges when one fits together these “puzzle pieces.” Together, the essays demonstrate the significance of time, place, and people in Hungary’s development.

There is throughout the essays consistent appreciation of history. Whether one is learning how Hungary’s contentious relationships with neighbors are rooted in the Magyars’ original conquest of this territory (Gronostajski), the Roma’s continuing difficulties since their arrival from India in the 14th century (Rikoon), or the enduring legacy of the post-World War I Treaty of Trianon which dismantled the greater Hungarian state (Oh), the authors demonstrate the power of the past.

The more recent communist experience also shaped Hungary’s transition to a market economy and a democratic polity. Berkenstock’s analysis of wastewater treatment shows that bureaucratic management and chronic disregard for infrastructure maintenance and modernization by Communist rule left transition governments facing mounting health, environmental, and development challenges with an outdated base. Kornfield details a similarly woeful tale with respect to Hungary’s housing stock and market. But the Communist heritage influences areas beyond these physical ones. School budgets and curriculum were centrally controlled with little local autonomy to respond to distinctive challenges and opportunities. (Cooper) Discrimination against minorities, whether directed against Hungarians living abroad (Oh) or against Roma by the Magyar majority (Rikoon), was consistently hidden by Communist authorities. Communist policies limited international marketing of tourism sites and activities and even disrupted Hungarian winemaking. (Lupson) Golant explains how the Communist government

designed and used Hungary’s pension system in order to mask unemployment.

The transition period is not so much a radical break with the past but merely a new chapter. The wastewater infrastructure deficit left by Communist rule overloaded early transition budgets and prevented rapid recovery. (Berkenstock) Unlike other formerly Communist Central and Eastern European countries that generally retained public ownership of about half of their housing, Hungary privatized more than 90 percent of its housing, granting tenants the option to purchase their properties for about 25 percent of estimated value. (Kornfield) Meanwhile, localities took control and ownership of their schools, granting greater autonomy but also leaving them with significant financial burdens and often limited economic resources. (Cooper) In the area of pensions, the transition socialist government rejected the proposed radical overhaul of the old system and “grandfathered in” prior benefits and pensioners. (Golant)

The authors make positive, if qualified, assessments of efforts to meet the challenges of the last decade and a half. Several essayists describe trends of modest increases of public and private commitment (see, for example, Berkenstock). Others, however, note halting and uneven developments. (Kornfield and Amato) Indeed, Berkenstock’s report of the negotiated delay until 2015 in the European Union’s deadline to comply with wastewater standards parallels delays in Hungary’s introduction of the euro. (Amato)

Looking ahead, however, all recommend further change, especially in view of the demands of accession to the European Union and the likely reduction or elimination of EU subsidies. (Berkenstock) Varma recommends that Hungary act now to emphasize high value-added biotech and communications development, while Rikoon celebrates the onset of the Decade of Roma Inclusion. Gronostajski calls upon Hungary and Slovakia to recognize and move beyond their troubled past. Golant concludes that lasting resolution of the pension crisis depends less on technical reformulation of the plan than upon economic prosperity. Hungary could take advantage

of its relative security to develop an impartial mediator role in both NATO and the European Union's Common Foreign and Security Policy. (John) Kornfield suggests that housing problems that depress demand should be addressed by shifting government subsidies from interest rate reductions to lump sum support for down payments. Cooper recommends increased support for study of foreign languages and technology (see also Varma); he also calls for reducing the number of teachers to cut expenses and eliminating entrance exams to promote equality. Amato urges Hungarian governments to make more modest and realistic budget deficit projections which acknowledge that progress will be slow and extend beyond the next elections.

These essays remind us that people interact with their *space* to create *place*. This is rooted in the geographic character of Hungary, its region, its continent, and the world. Whether one considers education (Cooper) or wastewater treatment (Berkenstock), mismatches in the distribution of resources and challenges complicate effective and equitable problem solving. Physical geography is important to tourism, as indicated by Lupson's emphasis upon travel networks, as well as her examination of wine, health, and business tourism. Similarly, Amato identifies the importance of transportation and telecommunication infrastructures for competitive advantage in attracting foreign direct investment. The state of the built environment is also critical to Berkenstock's analysis of wastewater treatment and Kornfield's essay on housing. Rikoon's analysis of the Roma in Hungary is striking precisely because they are physically present but socially and culturally apart, even after six centuries.

Not only is Hungary's internal geography important but also its regional context. Problematic revenues from tourism are caused in part by the predominance of less affluent Eastern European tourists and by unfavorable currency exchange rates. (Lupson) Oh emphasizes the explicit constitutional assignment of governmental responsibility for ethnic Hungarians living "beyond its borders." This is a principal goal of Hungarian foreign policy (John) and has shown some progress within the context of Hungary's imperfect but enduring agreements with its neighbors Slovakia and Romania. (Oh and John) Ultimately, the European Union and

Hungary's aspiration to speak for the EU in Eastern Europe and the Balkans may guide amicable resolution of this issue. (Oh and John)

Indeed, Hungary's relationship with the European Union — a member since 2004 — has increasingly shaped its recent development. Berkenstock shows that pressure from and support by the European Union was crucial to Hungary's commitment to substantial upgrading of its wastewater treatment program. Gronostajski attributes progress among Hungary, Romania, and Slovakia to their common goal of European integration. Rikoon suggests that increased attention to Roma rights is spurred by international legal standards and European Union accession requirements.

Hungary's contemporary development, however, has been shaped by concerns broader than regional, even continental, matters. Hungarian educational reform is measured within the context of international testing (Cooper), as Hungarian fiscal and monetary reform is measured within the context of international currency ratings. (Amato) Cooper identifies a major global impetus for Hungarian educational reform: increased economic growth with a well educated work force at modest wage levels (see also Varma and Amato). Pension reform used a World Bank model. (Golant) Varma details the transition to capital markets. Problems of shareholders' rights, corporate governance, capital liquidity, and transparent financial processes require consideration of comparative models and adoption of transnational institutions and practices.

Geography has significant equitable consequences as smaller, rural communities have more severe academic and fiscal challenges. (Cooper) Equality, however, is not limited to spatial factors. The overall distribution of the costs and benefits of Hungary's transition is problematic. Access to selective schools correlates with parental income. (Cooper) The pension system will not provide subsistence level benefits to those with low wages and/or significant periods of unemployment. (Golant) Housing privatization, reform, and subsidy disproportionately benefit those of higher socio-economic status. (Kornfield)

While the significance of economics to Hungarian development is undeniable and central to this collection, the pervasive influence of politics is more surprising given the nation's

choice to move to a market-based economy. Yet even a *laissez-faire* capitalist economy requires extra-market regulation to ensure free market prerequisites (Varma) and correct market failures such as monopoly and externalities. These challenges, difficult at all times, are particularly daunting in times of fundamental change. (Kornfield and Golant)

Hungary committed itself to democratic politics with competitive elections. Until the April 2006 election when the Socialist party retained power, Hungarian governments had alternated between right and left with each quadrennial parliamentary election. (Cooper) These shifts had important policy consequences in virtually every area under study herein. From halting curricular reform (Cooper) to politicization of foreign policy relationships with neighboring countries by dual citizenship referenda (Oh) to housing subsidy budget horizons tied to the electoral calendar (Kornfield), politics complicates governance.

No introduction to these essays can fail to note two events that have occurred since the essays were completed. The first is the recent European Union announcement that Romania and Bulgaria have been conditionally accepted for membership in the European Union as of January 2007. (“Romania and Bulgaria Hail EU Deal”) All analyses which place Hungary within a regional context will be affected, especially by Romania’s accession. (John, Oh, Gronostajski, and Lupson) The second is the current political crisis triggered by revelations that Prime Minister Ferenc Gyurcsány and his government lied about societal conditions and public policies during the

2006 campaign in order to ensure their re-election to majority status. (“Excerpts: Hungarian ‘Lies’ Speech”; see also Gyurcsány) Not only is this lapse ethically troubling but it also casts a cloud over the reliability of the whole range of data about Hungary, including information important to the essays in this collection. See, for example, Amato’s concern that the Hungarian government’s lack of candor, or worse, about budget deficit projections seriously harms Hungary’s credibility in international markets. Although one must be cautious about conclusions that are sensitive to modest changes in data, there is reason to believe that major conclusions herein will be undisturbed. No author paints a rosy picture of unmixed success. Moreover, last spring’s campaign — and the Prime Minister’s later candid admissions — acknowledged the serious challenges facing the nation.

Perhaps more telling is Gyurcsány’s call to his government to use its unprecedented re-election mandate to commit Hungary to the strong medicine needed to continue progress. This prescription is consistent with recommendations presented in these essays (see, for example, Amato). It is unclear whether the present government will survive at all or with enough power to implement its austerity program. As that issue becomes clearer, so will one’s perception of the Hungarian puzzle. Readers of these essays will have the lenses to bring that picture into sharper focus.

James Lennertz
Lafayette College

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