Social Market Economy in Hungary – Its History, Presence and Outlook

Péter Ákos Bod

1. Introduction

Hungary is one of the few countries where the term Social Market Economy (SME) is written into the Constitution, and perhaps the only one whose basic law names this concept in the first paragraph. The present Hungarian Constitution, a product of the regime change in 1989, opens with the sentence:

“In order to facilitate a peaceful political transition to a constitutional state, establish a multi-party system, parliamentary democracy and a social market economy, the Parliament of the Republic of Hungary hereby establishes the following text as the Constitution of the Republic of Hungary, until the country’s new Constitution is adopted.”

Before discussing the term and its content, it is worthwhile to note that the Preamble refers to a “new Constitution”; yet, such of piece of law has not been created, and under the present political conditions in Hungary it seems unlikely that the parliamentary parties would soon agree on a new Constitution. In addition, should the political forces come to an agreement on a new basic law, it is far from sure that the term of Social Market Economy would maintain its present eminent position.

What follows is, first, a recapitulation of the chain of events that led to the incorporation of the term Social Market Economy into the existing Constitution, second, a review of the meaning and content of that term in the Hungarian context, and third, estimation of the degree to which the SME concept has been implemented in Hungarian economics and social policies. The essay concludes with the author’s view on the applicability of the concept in the particular Hungarian set-up, and, more broadly, in open, trade dependent EU member states.

---


2. The Hungarian perception of the term

It may surprise the students of Social Market Economy or Soziale Marktwirtschaft (SMW)\(^3\) that the concept was widely discussed and well received in Hungary immediately after its birth. Wilhelm Röpke’s *Die Gesellschaftskrise der Gegenwart*, published in German in spring 1942, was instantly translated into Hungarian – perhaps the first translation at all. The book came out in 1943 under the Hungarian title *Harmadik Út* (The Third Way), sold well, and was reprinted in the following year.

The choice of the title *Harmadik Út* led to consequences; it probably contributes to the widespread and still present misunderstanding concerning the Social Market Economy concept. At that time, Third Way was a collective term used for a particular social tendency consisting of writers, social scientists and publicists, critical intellectuals; an interesting but complex set of Hungarian social thinkers.

1943, the year of publication, meant a particular historical moment for Hungary. Geopolitical and domestic conditions before the war and during the war years had drastically reduced the feasible options for anyone seeking to conceive a better future for Hungary. The regime of Admiral Horthy made certain efforts to upkeep the institutions of a constitutional state and to maintain a degree of civic order, but social tensions accumulated, democratic rights were gradually eroded and later drastically curtailed. In the early 1940s, official Hungary’s alliance with Hitler’s national socialist regime cast a menacing cloud on the whole Hungarian society. At the same time, news and reports emanating from the Soviet Union were equally frightening, even if the real depth of the terror and suppression was just not known to the public.

Under such conditions, Third Way thinkers, first of all, declared their unambiguous protest against both types – the German and the Soviet – of oppressive regimes. Others, on the other hand, defined it as a third option towards *capitalism* and *socialism* of their age. That is capitalism in the style of the US and Western Europe as it evolved in the preceding crisis decades (1920s through 1940s), on the one hand, and Marxist Socialism, on the other. Again, others defined the notion that the term Third Way allures to, as a model society – something very different from the then existing *Hungarian capitalism*, on the one hand, and the *Hungarian adaptation of Socialism*, on the other – the latter remaining a theoretical concept, since Hungary had not experienced a fully

---

\(^3\) Throughout in this essay, Social Market Economy will be abbreviated as SMW after its historic origin, also to avoid confusion with Small and Medium Sized Enterprises – regularly referred to as SMEs.
fledged socialist or social democratic alternative. If these are the choices Third Way rejects, it is not surprising that Third Way social thinkers and reformers came to very different conclusions under the same Third Way label. Judged by what they stood for, some could be regarded as traditionalists, others as social liberals; again others might be called elsewhere “narodnik” or even outright left-winger.

If that was the case during the war years, misunderstanding could only increase after the end of the Second World War. The true concept of SMW as elaborated by Röpke, Eucken, Alfred Müller-Armack, Alexander Rüstow, Erwin von Beckerath, or the practice of decision makers such as Ludwig Erhard and Adenauer could not possibly be digested and absorbed in Hungary after 1945 due, again, to adverse local conditions. Eucken’s publications were not translated into Hungarian at that time. Actually, his oeuvre has remained to date outside the Hungarian economists’ canon altogether. Nor was Röpke’s Civitas Humana (written in 1944) translated into Hungarian during the short-lived semi-democracy after the war ended in spring 1945. Thus the intellectual gap between what Eucken, Röpke and others of the SMW tendency represented, and what “Social” Market and Third Way believers stood for in Hungary after WWII, could only widen with the passage of time. Gradually, Hungary got absorbed into the Soviet sphere of interest, and eventually became a communist run closed society by 1947.

The issue of regime choice – if such choice had ever existed at all for Hungary – had ceased to exist altogether by that time. The various concepts of the Third Way submerged into insignificance.

For long decades, non-socialist and anti-socialist philosophy and social science had not been allowed to appear in Hungary; such tendencies could not legally organize themselves, with no room left for social dialogue about regime choice in Hungary, certainly less than in Poland where the institutions of the Catholic Church offered some limited publicity to thinkers outside the Marxist mainstream of the regime. It was not before the end of 1980s that the public discourse could again include issues of comparative sociology and politics, and particularly the question: What sort of society we wish to replace the corrupt and inefficient State Socialism?

Third Way intellectuals emerged by the end of that decade and they played some role in organizing civil movements within the slowly disintegrating socialist regime. In 1988 and 1989, opposition parties were formed in Hungary in large numbers, providing opportunities for socially active intellectuals to try to

---

4 Social democratic parties existed in Hungary, and could legally function since the consolidation of the 1920s, following the violent period of revolutions and counter-revolutions during the years 1918–1920.

5 A selection was translated into Hungarian much later, in 1996, with the support of the Hanss Seidel Foundation by J. T. Horváth.
put their ideas into practice. Poets and playwrights like S. Csoóri, D. Csengey and I. Csurka were hard to define as for their ideological orientation – a perennial problem with most Third Way thinkers. Sharing an anti-communist platform, they may not have agreed among themselves on all major issues of the age, but they certainly represented something different from the received definition of Conservativism, whether one defines it in philosophical term or as centre-right, in political terms.

Did Third Way intellectuals join the wrong party when they entered the centre-right Magyar Demokrata Fórum (Hungarian Democratic Forum)? During the long “social search” process many of the Third Way personalities found political home in MDF, the major Hungarian party that emerged among the very firsts during the political transition; the one that after the first free election provided the parliamentary majority for the first democratically elected centre-right (Conservative) government. In fact, most parties in an early stage of their development from 1988 through 1990 absorbed certain non-compatible tendencies for a while.

But “they entered the wrong door”-type explanation would simplify the dilemma whether Third Way concepts are alien or not to a conservative party. The term conservative itself is open to various interpretations in the historical context of Hungary as well as of other Central Eastern European countries.

Interestingly, the term “conservative” is not much in use in Hungary at present, and the public attitude to conservatism has been uncertain at best, for some time. An author, taking part in a recent debate on the pages of a Hungarian weekly on conservatism, argues: Hungarian public figures embedded in the Austro-Hungarian Monarchy in the 19th century tended to define themselves as liberal vis-à-vis conservative Vienna; some became radicals during the period between two World Wars, while later the term conservative gained negative connotation under the communist regime, which, eager to uproot all national traditions, identified conservative with reactionary. Therefore, in the last one and half century the term always meant something different. Its content has not been properly defined in public discourse so far.

The ambiguities surrounding the term were acute at the time of the Hungarian regime change. Without using the term conservative, the MDF in year 1989 and 1990, in preparation for the first free election, joined the political arena as

---

6 The collaboration between the mentioned intellectual tendencies these personalities represented and the MDF gradually weakened. As for the above persons: Csoóri withdrew from party politics, D. Csengey died early in the 1990s. I. Csurka was expelled from the MDF in 1993 and set up a radical party of his own (MIÉP – Hungarian Truth and Life Party), with anti-establishment and anti-market politics – a sort of protest party that has been classified by analysts as extreme right (but as for its view on economy, it is rather close to another small, non-parliamentary party: the Communists (“Labour Party”).

standing for a classical centre-right/conservative agenda: return to parliamentary democracy and market economy. *Return*, not only *transition*. Hungary and some other countries in the region (eminently Czechoslovakia and Poland) had been constitutional states and market-based economies before the Second World War, thus what was in the making after 1989 in their case meant not simply a change but also a return to their historic roots.⁸

The MDF as a party in opposition to the still ruling communists (Hungarian Socialist Working Party) until 1990, made it clear that the country needed a break with the planned economy even if its Hungarian version had become somewhat “liberal”; it rejected State Socialism as such, whether reformed or unreformed. This political programme in 1989 was unambiguous under party chairmanship of *Dr. Antall*; in fact, a *radical* one, in spite of the legalistic argument and non-inflammatory public discourse so typical of the MDF within the Hungarian political spectrum of the age. Is there a case of incongruence? Classical conservatism, as a rule, is a non-radical and organic tendency, eager to conserve proven social values; yet, in the time of deep social changes, MDF as centre-right (in West European sense: conservative) party offered a *radical option* compared to the successor party of the previous communist establishment or to some “middle-of-the-road” social movements.

A personal aspect should be mentioned here: the election of the historian *József Antall* as party chairman in October 1989 gave important new directions to the MDF and later to the government he headed since April 1990. Antall was not a “third way” nor a neither-fish-nor-meat intellectual: he came from a politically minded family, his father was a centre-right politician active before WWII who became cabinet minister right after the war before the sovietisation of the country; Antall with this background in 1989 emerged as a public figure who demanded not less than constitutional state, parliamentary democracy and a market (capitalist) economy. Antall made it very clear that he would not be satisfied – unlike some of the representatives of the Third Way within and outside of his party – with a reformed version of state socialism. He knew well and respected the theory as well as the practice of “Soziale Marktwirtschaft” in Germany, and regarded it a possible model for the Hungarian reconstruction.⁹

As a result of Antall’s elevation to party chairmanship and the concomitant inflow of professionals into the MDF, the party determinedly moved in late 1989 to the centre-right direction in the given Hungarian party landscape, allow-

---

⁸ In the context of economic development in Central Eastern Europe, I make this point as opposed to the present mainstream view of “transition”. See: Péter Á. Bod: *A Great Transformation? Banking and Capital Markets in ‘Transition Countries’*. MES Schriftenreihe, Europa-Universität, Viadrina.

ing the Alliance of Free Democrats (SZDSZ) to take the centre-left – which suited them better than their previous position as radical anti-communists. The political views and personal life paths of many leading personalities of SZDSZ have objectively associated them with the Left, even if this party in search for more votes during the campaign in 1989 took a quite radical anti-communist position. Eventually, in the first democratic elections, these two parties – MDF and SZDSZ – ended up competing for the top position, while the Socialist Party, the successor of the previous establishment party, and other smaller conservative and liberal parties vied for secondary positions. In this context, the program of the MDF and the views of Antall, its party chairman and a future prime minister, counted a lot.

The party program of the MDF explicitly spoke of the concept of social market economy. It called for deregulation as part of the fight against bureaucracy, monopolies and other restrictions on market competition; adding at the same time that MDF demanded an efficient market supervision and that it stood for enforcing the norms of fair trade (that is, for re-regulation as well). The party also supported the decrease of the scope and size of the public sector, and called for privatization, emphasising the significance of a vibrant middle class. Contents analysis of the main conceptual elements of the MDF programme thus justifies its self-definition as a party for social market economy.

The other major opposition party (SZDSZ) offered a rather textbook liberal solution for the Hungarian transition problems: quick privatisation, deep reduction of the role of the state, instant opening up to foreign capital market and full reliance on market forces, while income and wealth differences were to be corrected through welfare measures.

Interestingly, the socialist party and its quite extensive supporting institutions in academia, business and media, also took a rather liberal, even sometimes libertarian, position concerning state functions. This may sound strange for a nominally socialist or Social Democratic Party.

Yet, one has to keep in mind that the former ruling nomenclature had no interest in maintaining any market supervision function of the state, particularly if this control function would be exercised by a government not under their rule. They wished even less a state that vows to correct social imbalances and to break market monopolies since most such corrections would threaten the positions of the former political nomenclature that had, by that time, turned into a business elite.

Very fast privatisation under, say, management buy-out schemes sounds well in theory, but in practice it might mean that incumbents capture most of the public assets. Such a policy, thus, would only cement the hegemonic political

positions of the previous (party-)elite into the ownership structure of the new Republic. Alternatively, the policy of speedy “assets-for-cash” privatisation will favour the positions of foreign capital: if state assets are sold for cash through competitive bidding, the chances are very high that the assets will land with cash-rich foreigners rather than with domestic small and medium size businesses. Why the socialist supported a liberal-libertarian alternative to “Ordnungspolitik” issues is easy to understand; what is less clear why the vocally anti-communist Free Democrats thought that the policy of speedy privatisation would work well in a society in transformation.

All these later developments in privatisations were, of course, made possible by the first free elections in March 1990 and, prior to that, by a new constitution that opened up legal preconditions for opposition parties to conduct political campaign in a free election. This was thus the time when the term SMW found its way into the Preamble of the text. Exact circumstances of the actual drafting of the text are hard to reconstruct now, but the following scenario seems to be probable.

The date is Summer of 1989; with Soviet troops still in Hungary, the country is nominally a party state, the communists dominate the sitting Parliament. The Hungarian Socialist Workers’ Party (MSZMP) in hegemonic power for decades, at that moment represented one side at the national round table negotiations. As for the text of the new constitution, this party initially insisted on naming socialism as a constituting element of the new democracy. When the MSZMP sensed the resistance coming from the unified opposition (MDF, SZDSZ, FIDESZ and other smaller organizations) representing the other side at the round table, it gave up pushing the term “Socialism”. This must have been the moment when Antall offered a reference to social market economy.

Most of the persons representing their respective parties in the editing committee must have had less than full knowledge of what the term meant. The reconstructed Socialist Party (formed in October 1989 as a legal successor party of the MSZMP) did not want to be seen as ideologically linked to the communist-socialist past, so it did not insist on socialism, and did not object to the adjective “social”. Their representatives may have thought that “social” is not much far from “socialist”. What is a fact: The term social market economy was incorporated into the first election manifesto of the Socialist Party!

Misunderstanding or not, the term was enacted by the outgoing Parliament as part of the text of the year 1989 Constitution.

3. SMW in action – the Hungarian case

It is of course another story whether or not the original concept of Social Market Economy has been put to work during the transformation years in Hungary. In order to judge the case, first of all the basic tenets of SMW must be defined. For
that purpose, three main policy issues of the Social Market Economy concept, common under the numerous variants of it, are suggested here, namely attempts to deduce the size and scope of the State and maintain price stability; keeping big business at check and market competition alive and supporting the SME sector.

In these respects, the successive Hungarian governments have not been very efficient. Reduction of the *ratio of redistribution* (government expenditure as percentage of GDP) has been slow and uneven. The first freely elected government of Prime Minister Antall (1990 to 1993, followed by PM Boross after Antall’s death) did manage to reduce the size of central government by strengthening local authorities and moving social security funds outside the central government. Central government became smaller, its role was drastically reduced in economic affairs, yet the ratio did not decline; not due to lack of efforts, but rather because of the deep contraction of the national income.

The following, Socialist-led government of PM Horn that came to power in the summer 1994, at first let the economy drift, then noticing a looming monetary crisis, quickly reduced state spending in March 1995 under a stabilisation package (“Bokros package” named after the minister of finance in office). Unfortunately, some of the public expenditure savings turned out to be of transitory nature.

Later, the subsequent civic (non-socialist, centre-right) government of PM Orbán managed to cut public sector deficit, and slightly reduce the share of public expenditures to GDP. The Socialist-Free Democrat coalition returned to power in 2002 with a grand spending scheme (“Welfare regime change”) under PM Medgyessy – launching very expensive spending programs that were soon to undermine the fiscal position of the Hungarian state. Medgyessy had to go once the damages done to economy began to surface. But the same coalition under PM Gyurcsany continued its spending programs and even declared massive tax cuts before the next elections, in light of the “roaring economy”. This all has lead to public sector deficits of alarming size (over 9 per cent of GDP in 2006), as the public learnt after the elections. On promises, the same coalition managed to win elections in 2006, only to reveal soon after the victory the true data on soaring state debts and record size of deficits.

The conclusion is that rolling back of the big government has not been a success story. Just the opposite: Hungary recorded the highest deficit per GDP figures among the 27 member states of the enlarged European Union in 2006 – hardly a tenet of SMW à la Adenauer.

What about other characteristics of the SMW? As for *price stability*, it is again hard to compare the achievements of various Hungarian governments. The Antall cabinet inherited sizable monetary overhang and strongly embedded inflation expectations in 1990. Against this background, its inflationary record was still rather good. The left wing coalition to enter into office in 1994 resorted to a
surprise inflation trick in 1995 as an integral part of its stabilization package – something which is very much an anti-SMW measure. The third coalition (again centre-right) under PM Orbán during 2001–2002 managed to break the stubborn inflationary trend it had inherited from the previous (Socialist/Free Democrat) government. The leftist governments after 2002 have had a mixed record on monetary stability: inflation declined when taxes were reduced, but prices immediately increased once in 2006, after the revelation of the true situation of the public finance, a series of new taxes, were introduced.

Given that Hungary meanwhile became member of the EU, its Central Bank is much more independent than before, thus the Socialist-led Cabinet could not resort again to surprise inflation. Yet, consumer price index is relatively high, interest rate is much higher in Hungary than in other new member states (not to mention the Euro-rates), and Hungary is unable to meet any of the Maastricht criteria for entering the Euro-zone.

The macroeconomic policy stances under centre-right and socialist-led government therefore do show some pattern supporting our hypothesis: centre-right, civic governments care more about the value of currency and they (in theory) prefer a smaller state, while the left has not cared that much for price stability and has had its public spending fits. Yet, on the whole there has been certain continuity in Hungarian policies: fiscal probity has been weak throughout these 15 years.

Even less can be said of the second trait of the SMW concept’s implementation in Hungary: keeping big business at bay. The Hungarian economy is very much of a dual nature: it is dominated by large (mostly foreign owned) firms on the one hand and populated by a high number of under-funded micro, small and medium sized firms, on the other. But this duality cannot come as a surprise, neither the soft attitude of governments to multinational firms. Most countries in the region have attempted, from the very start of the regime change, to absorb foreign capital and technology in the form of foreign direct investments (FDI) and have offered sweeteners for large foreign firms. However, FDI-friendly policies do not mix well with a strong anti-monopoly stance.

This is not a specific Hungarian issue. But Hungary entered the regime change phase heavily indebted and was thus very much dependent on the capital markets and in need of foreign investments. Yet, in the very first years of transformation, Hungary emerged as a country successful in absorbing FDI and selling a large number of the public sector enterprises to foreign strategic investors through competitive bidding. Privatisation stands out as perhaps the most important policy instrument in the hands of the government, and its main technique as a very effective shaper of the “Ordo” of the new economy. In Hungary, the main avenue to privatisation has been direct sale of state assets for the highest bidder.
Unquestionably, the method of market sale tends to favour foreign investors over domestic players, who can hardly compete with the former in terms of purchasing power. Thus in the first full year of Hungarian privatisation, about 80 per cent of revenues accrued to the Privatisation Agency through the sale of state assets to foreigners. Hungary emerged as the country in the region with really significant foreign direct investment in the early 1990s, in spite of output contraction that was nearly as deep as in other transition countries.

The first government after the change, led by PM Antall, sensed the dangers inherent in privatization excluding domestic players, and it made great efforts to create the appropriate legal and financial conditions for local businesses. This government, often described as patriotistic, certainly tried to balance the foreign/domestic composition, that is, to avoid the dominance of foreigners in buying Hungarian state assets. Yet, in spite of corrective measures, the nature of direct sales gave rise to a predominance of foreign buyers.\(^{11}\)

<table>
<thead>
<tr>
<th>Country</th>
<th>Sale to outside owners</th>
<th>Management/employee buyout</th>
<th>Equal-access voucher privatisation</th>
<th>Restitution</th>
<th>Other</th>
<th>Still in state hands</th>
</tr>
</thead>
<tbody>
<tr>
<td>Czech Rep</td>
<td>By number 32</td>
<td>0</td>
<td>22</td>
<td>9</td>
<td>28</td>
<td>10</td>
</tr>
<tr>
<td></td>
<td>By value 5</td>
<td>0</td>
<td>50</td>
<td>2</td>
<td>3</td>
<td>40</td>
</tr>
<tr>
<td>Hungary</td>
<td>By number 38</td>
<td>7</td>
<td>0</td>
<td>0</td>
<td>33</td>
<td>22</td>
</tr>
<tr>
<td></td>
<td>By value 40</td>
<td>2</td>
<td>0</td>
<td>4</td>
<td>12</td>
<td>42</td>
</tr>
<tr>
<td>Poland</td>
<td>By number 3</td>
<td>14</td>
<td>6</td>
<td>0</td>
<td>23</td>
<td>54</td>
</tr>
</tbody>
</table>

Table 1: Initial methods of privatisation for medium-sized and large enterprises

Preponderance of foreign strategic investors lends radical character to the structural transformation of the economy. In the Hungarian case, micro-shocks went mostly unnoticed as they took place within the privatised firms, without much ado. The pattern as demonstrated in Hungarian privatisation was as follows. First, outside (mostly foreign) buyers quickly transform corporate governance by introducing their own management system. Then the new management radi-

---

cally rearranges the organisations by reducing redundant labour and closing down non-core activities. Reorganisation generally involves further investments into both machinery and facilities and financial restructuring through loans from parent companies.

Hungary may be the country where sale to outside owners is most prevalent, but this technique has been applied in other countries too, such as the high profile cases in the Czech Republic (SPT Telecom, Volkswagen-Skoda, Philip-Morris-Tabak, Continental-Barum). In the case of Poland, sales of state assets to foreigners initially started slower, but capital increases in already privatised companies became more frequent. The size of the Polish market in itself is a factor that has increasingly contributed to strong capital inflows in recent years.

To illustrate the pattern, let us take the car industry which has been the single most important investor in the region: Volkswagen has invested heavily in the Czech Republic and Slovakia; GM-Opel in Poland and Hungary; Fiat and Daewoo in Poland; Suzuki, Ford and Audi in Hungary. Car manufacturers typically invest into the “greenfield”, although not exclusively (as exemplified by the VW-Skoda deal). Still the fact is, that these modern plants function apart from the domestic economy, and there have been few linkages with the small and medium sized enterprises (SMEs) of the host countries.

The conclusion therefore is, that both the control over “big business” and the support of the SME sector have been very limited during the whole period of transformation.

Still, there have been important differences. The Antall government introduced specific support measures for domestic small and medium firms (the so-called Existence Loan, the Privatisation Loan), and offered preferential treatment to small entrepreneurs in the first round of privatisation involving restaurants and retail shops in 1990 and 1991. Over 200 companies were denationalized in the first years of the 1990s through Employee Stock Ownership Plans (ESOP) – also a technique supporting the local community and the “common men”. These policies were all discontinued when the Socialist-Free Democrat government took to power in 1994; that coalition clearly preferred selling assets to foreign large scale – even sometimes state owned – entities such as Electricité de France, RWE and EON.

The election to office of the second non-socialist government under PM Orbán in 1998 (who himself and his party FIDESZ have gradually abandoned their alternative-libertarian tendencies of the early 1990s to move to the centre-right position of the political landscape) meant that the SME sector once again received direct support from the state. Moreover, foreign owned firms had harder times in gaining government orders than previously under the much friendlier Socialist-Free Democrat rule. The Orbán Cabinet also introduced a national development programme (the Széchenyi Plan) with the goal of supporting the domestic SME sector, and preparing it for the coming EU competition. Unfortu-
nately, this Plan was immediately suspended as soon as the Socialist-Free Democrat coalition returned to power in 2002. The unprepared Hungarian domestic economy later, in year 2004, when accession to EU took place eventually, did indeed prove poorly prepared to compete for EU funds, and compete with imports from the EU countries. Year 2004 may be regarded as a transition year, yet it is important to note that the net position of Hungary vis-à-vis the EU was a mere HUF 76 bn (EUR 250 million), less than 0.3 per cent of GDP.

Table 2: Hungary and the EU – contribution and access to EU funds

<table>
<thead>
<tr>
<th>Billion HUF</th>
<th>Flows to Hungary</th>
</tr>
</thead>
<tbody>
<tr>
<td>- EU-rebate</td>
<td>42,8</td>
</tr>
<tr>
<td>- Phare support</td>
<td>32,9</td>
</tr>
<tr>
<td>- Schengen Fund</td>
<td>13,9</td>
</tr>
<tr>
<td>- Structural Funds</td>
<td>50,5</td>
</tr>
<tr>
<td>- Ispa-Cohesion Fund</td>
<td>9,1</td>
</tr>
<tr>
<td>- Sapard</td>
<td>6,7</td>
</tr>
<tr>
<td>- Rural development</td>
<td>15,3</td>
</tr>
<tr>
<td>- Agricult. Support</td>
<td>0,1</td>
</tr>
<tr>
<td>- Direct subsidy to farmers</td>
<td>-</td>
</tr>
<tr>
<td>- Support to inner policies</td>
<td>11,8</td>
</tr>
</tbody>
</table>

**Contribution by Hungary**

| 106,7 |

Hungary – net position 76,5

Source: Hungarian Development Agency, 2005

Looking back at the practice of successive Hungarian governments, one general conclusion that comes to mind is, that there have been rather similar challenges and somewhat similar policies as far as macroeconomic steering is concerned, and from policy aspects, there has been not much of SMW impact in the country. But that would not be fair to particular governments, exactly because of the nature of challenges and external conditions that have characterized most of the 15 plus years since the start of the transformation. External conditions and inherited fiscal and monetary problems did narrow the path for successive governments, yet centre-right coalitions took steps to strengthen the SME sector and moderate the side effects of market sale privatisation, and thus they did what seemed feasible at that time, while others – notably the governments between 1994 to 1998 and 2002 to date – rejected the core policy recommendations of the social market economy school.
4. The future of the SMW concept in Hungary

The particular initial conditions of 1989 do not exist any more in Hungary. After one and half decade of deep going transformation, we have a market economy which is very much different from what people and politicians hoped for in 1990. Hungary is now member of the European Union; admittedly the accession came much later than originally hoped for: in 1990 it looked like probable that a few county, and Hungary among them, would get full membership by the mid-1990s or at latest by year 2000 – instead, a “big bang” took place in May 1st, 2004. This round of enlargement of the EU was administered under a less generous fiscal plan, compared to earlier enlargements.

Domestically: the middle class has had harder time than we all originally thought at the time of the regime change. Agricultural transformation has turned out to be a slower and more cumbersome process than forecast, while the industry and banking have become more competitive, more productive – and less Hungarian. Penetration of Foreign Direct Investment has been dynamic, but so far FDI has not really mixed with domestic capital. The stock of FDI is geographically quite uneven: investments are concentrated to the capital city and to some West-Hungarian locations.

Against this background, the outlook for stronger accent on Social Market Policies looks mixed, at best. Four topics invite further elaboration: first, the strength of the middle classes, the usual engines behind SMW politics; second, a lean but efficient State as guarantor of the “Ordo”; third, the relative strength of foreign big business – nowhere a supporter of social market concepts; and fourth, the role that the EU may play in the process.

The first conclusion is that the “Mittelstand” in Hungary (and in most other transformation counties) has emerged weaker than forecast. Middle classes have lost ground during the seismic social changes; the cultural and political influence of the traditional “intelligentia” has given way to massive ubiquitous influence of a “media-elite” – mostly through foreign owned commercial television channels. The weaker than expected domestic business class cannot act as an engine for small business supporting public policies so typical in the fashion of SMW.

Secondly, and connected to this one, the role of the State: it is larger than hoped for. Particularly important to note is that centre-right parties and movements – who, in the European scene, generally act as political forces against the costly welfare state tendencies of the European left – within the particular Hungarian context regard the State as a potentially useful weapon to be used to correct inherited market failures and political rigidities, and in particular, to break the hegemonistic position of “nomenclature bourgeoisie”. The state, in the eyes of influential FIDESZ politicians, has to be not less active than before. (Proba-
bly this is again a quite general phenomenon among centre-right parties in the region that compete with strong ex-communist parties and their business elite.)

Third, the question of the attitude to FDI and foreign capital as such. The very high penetration of foreign capital offers two readings. One is that the CEE countries, and among them Hungary in particular, have proved competitive enough to absorb so much capital. But there is another reading of the same story: incumbent domestic businesses have proved to be weak and non-competitive, and public policies have even suppressed domestic SMEs, rather than providing them the legitimate state support. It is hard to be objective on this issue; what is certain is, that the situation in the early 1990s called for capital import, and that time the nation state was not in strong bargaining position vis-à-vis transnational giants, demanding preferential treatment for themselves. Tax holidays offered and state subsidies paid to big business in 1990 and right after should not be repeated now; fortunately the EU regulations would not allow eager national governments to over-incentivise multinationals.

Unfortunately, the same EU attitude to “even playing ground” makes it harder for a national government to apply the same SME support schemes that worked so well in the 1950s and 1960s in Germany, France and elsewhere, whether under the SMW concept or otherwise.

This brings us to the fourth point: the influence of the EU as supra-national body. SMW is a concept and policy which presupposes some common national understanding on competition, fairness and the role of the state, and the roles and responsibilities of the individual. Based on that understanding, a sovereign government with its parliamentary majority can design and implement measures to correct market imperfections, and support activities that promise positive externalities. Membership in the EU, however, undoubtedly reduces the room of manoeuvre for any government to conduct what the EU regards national structural policies.

In older, more established market economies there may be fewer reasons for the nation state to implement active (activist) structural policies, but in countries in transformation a certain historical belatedness would justify methods not used in “old” Europe any more. One only wonders if the members of the EU and its bureaucracy will understand the differences among nations’ social structures, and accept national policies aiming at correcting inherited structural rigidities such as the weakness of the middle class and of the SME sector.

The full impact of the EU-membership on transformation countries remains to be seen. What has been going on recently with the Growth and Stability Pact provides ammunition to those who feel the rules tend to serve the big countries. Regional and structural funds, even if their relative sizes are miniscule to what Portugal, Greece or Spain received at their entry, would partly strengthen the SME sector in EU-12. Eventual membership in the Euro-zone would reduce real interest rates for all businesses, particularly for the smaller, domestic players –
again something which promotes the case so central in the SMW concept: to build and maintain a vibrant middle sector in economy and strong “Mittelstand” in society. The balance of the new members with EU may become much more positive than what the present accounts show.