

Chapter 10

Political Analysis of System Transformation – Continuity and Changes of the Old Regime

Tsuneo Morita

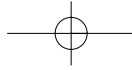
Tateyama Laboratory Hungary Ltd., Budapest

*Children grow up by observing the behaviour of their parents:
on one hand by imitating parents' behaviour
and on the other hand by intentionally
diverging from their parents' way of life.*

10.1 Secret service revelations: a flurry of file opening

Hungarian domestic politics has been shaken to the core by revelations of various secret service links concerning certain current leading politicians. After the general election in May 2002, the defeated party, FIDESZ (the Association of Young Democrats) launched a political attack on Prime Minister Medgyessy (the Hungarian Socialist Party) by uncovering his secret service past. Providing the information in the said document is true, Medgyessy was classified as a top secret agent from 1961 to 1989. FIDESZ demands the resignation of the Prime Minister, while the ruling party asserts that Mr Medgyessy was carrying out the duty of counterintelligence for the sake of national security, and therefore need not resign from his post. The coalition party, SZDSZ (the Association of Free Democrats) at first demanded his resignation, though soon after withdrew their demands when Medgyessy promised to make public secret service files gathered in the Interior Ministry.

In the meantime a counter attack was launched by the ruling socialist party: one ex-party member revealed in a television programme that the father of the FIDESZ president had been an informer for 33 years up until 1989. The president, Pokorni, was shocked by the revelations and consequently resigned his post as president of FIDESZ, after having been the loudest voice calling on Medgyessy to resign.



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All party presidents voiced the collective view that children bear no responsibility for their parents' actions. The decision taken by Pokorni seems to be naive, however the subject of 'Father and Son' has been prominent among intellectuals and politicians in Hungary. As opposed to other party presidents, Medgyessy urged, 'We should close the doors on our past as quickly as possible, and take our heads forward into the future'.

How can we confront the past? What should be learned from the past and what should be transmitted to the future generation? The question has been a universal one throughout every stage of history.

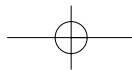
10.2 The Hungarian anomaly

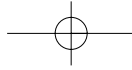
Here is a fundamental question: why have the secret service careers of Hungarian politicians come into focus only now, 12 years after 1989? We can put the question another way: why has the situation not yet been resolved? Or alternatively, why have the secret service careers of politicians remained unquestioned until now in Hungary? We can attribute this to the different process of Hungarian transformation that distinguishes it from other countries.

As has already been well established, Hungarian transformation was initiated by the reformist wings of the Hungarian Socialist Workers Party (the Hungarian Communist Party). That is why Hungarian transformation was seen through in a peaceful manner. The ruling power's initiatives provided the impetus for Hungarian transformation. As part of this process, the pasts of reformist politicians were not brought into question and, *de facto*, they were freed from responsibility for their activities in the past by virtue of the peaceful transfer of power.

Needless to say, the actual political process has not been that simple. The Prime Minister who was installed after the first free general election, Jozsef Antal, once tried to open files, but quickly gave up on his plan. It is said that so many MPs had secret service involvement and opening the files could have led to the dissolution of his government. Therefore, Mr Antal chose not to open the files, but to utilize them for his political governance.

It is said that many individual files were stolen and destroyed around 1989, when the transformation began, and also during the socialist term from 1994 to 1998. Thus, the Socialists have been upbeat regarding this matter, never expecting the contents of the files to be brought into the political spotlight. Hence, they initially experienced a major setback at the allegations, but are now noticeably confident of dealing with them.¹





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The situation became yet more complex after the Socialist Party made public the fact that Mr Pokorni's father had been an informer for 33 years, which implicitly transmitted the message that many politicians are involved whether they are aware of it or not. Medgyessy said in public that the files would be available to the public, who in turn will uncover some surprises. What he said is not worthy of respect and is not the kind of statement expected from the leader of the government. His words can be translated as follows: 'Not only myself, but also many well known people were involved in the matter'.

It is impossible to accuse people retrospectively in a legal sense over their past. It might have been possible in the early 1990s, though not only has a great deal of time elapsed since then, but nor does the public support it. So, does this mean that everything is above board for the socialists, even the celebration of Mr Horn's birthday? What is the fundamental problem in this matter? What is needed from politicians in order to learn from their mistakes? Not hiding from the truth, but instead facing up to the facts. This may well be an ethical question, but nobody should avoid confronting it.²

Why are secrets from the past coming to light now in Hungary and turning into hot political issues? And why is the public not overly concerned about this matter? According to a recent poll, the public is not demanding the resignation of Prime Minister Medgyessy.

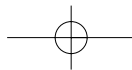
Aside from the ethical question, the matter itself was raised by the opposition party, FIDESZ, as a counter-attack against the socialists, who themselves have been exposing scandal and corruption on the part of the previous government after its victory in the general election. This matter was of a highly political nature from the outset, and the public is acutely aware of this.

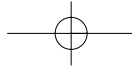
On the other hand, we are again made aware of the uniqueness of the Hungarian political scene, in the sense that intellectual elites in the old regime still hold power in Hungary, which appears highly contradictory to our expectations that the new era should ushered in by the new generation. However, this in itself shows that transformation takes much more time than expected, even in the most reformed country.

10.3 Classification of the political transformation

10.3.1 Two types of peaceful transformation

When we compare Medgyessy's experience with that of the Polish Prime Minister, Josef Olexy, who resigned immediately after revelations of his past as a secret service agent in the old regime came to light in 1996, we are





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reminded once again of the peculiar nature of Hungarian political transformation. Although both countries took steps of consensus-based approaches to enable peaceful transformation, there still exist fundamental differences between them.

What are the difference between Olexy and Medgyessy, and the political transformation between Poland and Hungary?

The difference lies in the power relations between the opposing powers and the ruling power in the initiatives for transformation. Reformers of the ruling Communist Party initiated the Hungarian transformation. On the contrary, the opposing power, Solidarity provided the stimulus for the Polish transformation. The nature of the source of the transformation process defines and dominates the future political climate. Thus, Olexy resigned and Medgyessy stayed on in his position.

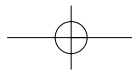
10.3.2 The Czech and Slovak cases

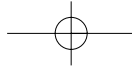
Unlike Hungary, Czech political transformation was initiated entirely by the opposition powers in the midst of the self-induced collapse of the Communist ruling power. Thus, the original Communists totally lost their positions. It was, in effect, revenge by the opposing intellectuals to the ruling Communists for the preceding 21 years of suppression since 1968. There was neither room nor a role for 'old' Communists in the transformation process. Secret service members are legally excluded from public jobs and the legislation is still in effect.

However, the Slovak situation differs from the Czech one. Despite the same legislation that excludes those with secret service backgrounds from public jobs being passed, it has never been effective in Slovakia. This is because there was never a prominent reforming power in Slovakia during 'The Velvet Revolution' and, therefore, the nationalistic-conservative wing formed from the old Communists took back power. Meciar stole his files and destroyed them. The nationalist movement by the old power overwhelmed the vulnerable reformers, which characterizes the transformation process in Slovakia. In some ways, the political situation is similar to that in Romania and in many ex-Soviet Union countries.

10.3.3 Rough scheme of classification

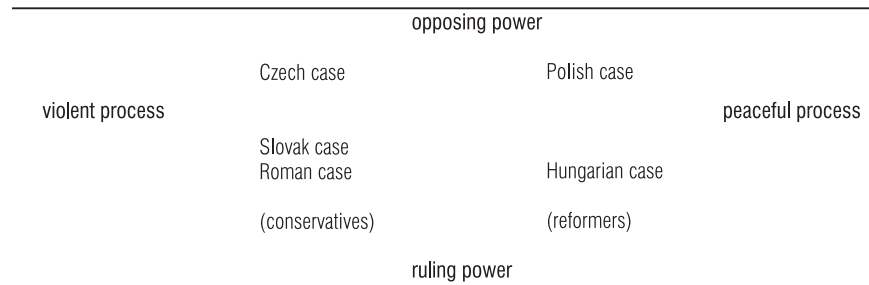
As described in Figure 10.1, we are able to elaborate a classification map for political transformation in Central Eastern Europe:





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Figure 10.1 Classification of political transformation



In the case of the ex-Soviet Union countries, where the previous Communist leaders continue to occupy governmental and/or presidential positions, the reign by the old regime is continuing in an albeit disguised form. Peaceful, but conservative reign by leaders of the old regime can be explained by the lack of an opposing power. We cannot characterize these countries as transforming countries: only as a ‘disguised’ continuation of the old regime.

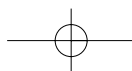
10.4 Legacy of the old regime: continuity of the old regime

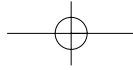
If corruption and the theft of state assets are prevailing phenomena in transforming countries, then we have to analyse the causes and establish the facts in the form of a historical account for the sake of society. The least social scientists can do is to record it as witnesses of history. In every transforming country throughout the 1990s the formation of vast individual wealth has mainly been achieved not through legal economic activity, but through the theft of state assets and/or insider transactions.

Socialism itself is a highly ethical ideology. However, the socialist societies that existed in reality were far from ethical and therefore it is not surprising to us that so many unfair transactions have been conducted during the transitional process after the collapse of the old regime. We can say that the first decade of system transformation in the last decade of the 20th century is comparable to the original accumulation process described by Karl Marx in *Das Kapital*.

10.4.1 Theft and corruption: regression to the old regime

The theft of state assets, corruption, such as bribery and the unauthorized use of public money, can be widely observed in the transforming countries, and these are said to be the result of introducing a market system after the col-





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lapse of the old regime. This observation is not correct. Theft and corruption in contemporary transforming countries are an inevitable inheritance from the old regime, where no civilized social normative and no proper prosecution system against crimes of political power existed at all, because the Communist Party possessed 'unworldly' power superior to any other institution or body of society. People were thought of as not being sufficiently clever and therefore were to act obediently, and Communists were thought to be extremely knowledgeable and therefore had the right to 'reign' over the people. This sounds absurd, but the reign of absolute power prevailed over society as a simple and universal rule. If you consider Mr Klaus in the Czech Republic and Mr Orban in Hungary during their terms as prime minister, their arrogant behaviour is reminiscent of an all powerful general secretary of the Communist Party.

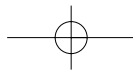
A child tries to imitate its parents and people try to imitate the power elite. What has been observed in the transforming countries is exactly the same type of imitation by people or the continual activity of the old elite as the Communist leaders did in the old system. We can call this phenomenon the typical regression to the old regime. The spread of theft and corruption is widespread in terms of its depth and continuity of regressive phenomenon in the states where Communist dictatorship was also deeply rooted.

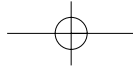
Has social justice been lost as the result of the collapse of the old regime? Not at all. Social justice had already been lost under the old regime. What we can observe now in the transforming countries is the clear testimony and inevitable result of a society where social justice was lost a long time ago.

10.4.2 Politically motivated managerial appointments

During Orban's reign in Hungary several 'technical' and managerial problems were reported in the Hungarian Airline Company, MALEV, and the newly appointed CEO, Mr Hernadi resigned after a short assignment due to the continuing troubles. This in itself was hardly surprising news. What was surprising was the fact that the CEO who resigned was very young and lacked sufficient business experience, but nevertheless he also held the post of CEO in MOL Ltd., the largest company in Hungary, and in addition he was CEO of a small bank. What an 'incredible' man he was! He was like the general secretary of the Communist Party. Needless to say, all these political appointments were made by the ruling party, FIDESZ.

It is also a well known fact that the president of FKGP (the Party of Independent Small Peasants), the junior coalition party in the previous gov-





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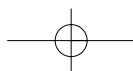
ernment, appointed his daughter-in-law, who only has a high-school education, to the managing board of MALEV. In the end, he had to withdraw his plan after being faced with strong criticism even from within the coalition parties. Nevertheless, the large state companies have continued to be the target of political appointments and the utilization of political power. This is exactly what Communist leaders did in the old regime. It is very surprising that the young generation in Hungary has inherited the political customs of the old regime; this demonstrates to us that transformation to the 'civilized world' has only been partially achieved. The idea that children imitate parents is alive and well as seen in the political appointments made within state companies in the transforming countries.

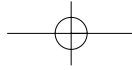
10.4.3 Subordination of prosecution to ruling power

A general observation is that economic crimes go unpunished in Central European countries. Needless to say, the scale and depth of crimes in Central Europe is not comparable to those committed within the Russian Federation, where hundreds and thousands of *Berezovskies* actively participate in economic and political lives. However, the situation in itself is not essentially different from what is going on in the Russian Federation in even the most advanced transforming country such as Hungary. Even today, almost all economic crimes committed by politicians and bureaucrats are still dealt with by political compromise as if they were part of a political game, and were not socially unjust.

There are two prominent and characteristic economic crimes in Hungary that involve many politicians and bureaucrats. One is an economic crime regarding the state-owned Postabank, and the other is the so-called 'Oil-Gate in Hungary'. However, strangely enough, no one has yet been arrested concerning these two crimes; in fact it is as if no one is guilty.

Many banks were privatized by being sold off to foreign strategic partners in Hungary. A few banks remain available for Hungarian politicians and domestic entrepreneurs as friendly and generous moneylenders, among which Postabank was one of the largest. The bank's president kept intimate relationships with politicians and domestic entrepreneurs. Many politicians, bureaucrats and entrepreneurs got their hands on the bank's money through various channels of money flow. Rumours circulated around Postabank and when the new government came to power, it was disclosed that the accumulated loss of the bank amounted to about 150 billion Ft at the end of 1998. When the bank came under the administration of the Central Bank in the





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summer of 1998, the expelled president and CEO, Mr Gabor Princ, moved hurriedly to Vienna where he remains without any prosecution having been initiated against him.

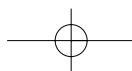
No prosecution has been initiated so far against anybody over this matter and the loss has been compensated by the state budget. No one is responsible for the loss and taxpayers' money is being used to cover it. On the contrary, the FIDESZ government brought a lawsuit against the auditing companies for the compensation of the loss.

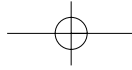
What essentially happened around Postabank was the disguised theft of public money, and yet no one has been prosecuted. It appears that this crime will continue to go unpunished because many politicians from all parties are involved. The sole way to solve the crime of political power has been a *de facto* mutual pardon of the crime. In other words, it is actually a *political cancellation of the transitional crimes* during system transformation. Hence, with such compromises moral hazards continue to remain part of social life.

The same can be observed in the so-called 'Oil-Gate in Hungary', the other prominent crime. This economic crime revolves around the smuggling of oil and the refinement of oil without permission, which happened rather at the beginning of the transformation when import liberalization measures were introduced. Oil smuggling generally calls for wide-scale cooperation among importers, customs officers, the police and politicians. Local customs officers and the police are deeply involved, and politicians play the part of preventing police action and prosecution.

Although the events of 'Oil-Gate' happened several years ago, due to media pressure the government had to establish a special committee within parliament to investigate the crime earlier this year. Since then, many people have testified to the committee and one of the ex-members of the smuggling group gave an explosive testimony, mentioning the names of politicians involved in the crimes. However, once again, politicians are making moves to close out the event by questioning the fact and the truth of the testimony. In fact, the newly appointed head prosecutor has already declared at the committee that no evidence of politicians' involvement was found. The case seems to be coming to a close, and no one is likely to be arrested and prosecuted, as was the case in crimes involving Postabank.

Even in the most advanced transforming country such as Hungary, an independent prosecution system has not been installed and the independent media is still weak. The social surveillance system is not yet effective. People are very tolerant of the crimes of the power elite as was the case under the Communist regime. Social conscience towards economic crime is generally





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non-existent. People have even been known to try and buy back their stolen cars from thieves. What kind of social activity is this?

Thus, the transforming countries still face sizeable tasks not only in the building of a new economic system, but in forming a new society by establishing new social norms based on social justice and social morals.

10.4.4 Theft of the state budget: the waste of public money and high tax burden

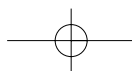
There are two main sources for ruling politicians to get and/or arrange money for their political activities and private use: state budget and state bank. That is the reason why the Orban government re-nationalized the Postabank and fully utilized the Hungarian Development Bank. When making a coalition, ruling parties are used to negotiating which ministries should be pure ministries. What is a pure ministry? It is a ministry which can be managed by a sole party without intervention and surveillance of a co-partner. In Hungary, as other countries, ministers and political secretaries of ministries have the right to decide on the use of the budget allocated to the ministries. Politicians use the public money like their own pocket.

Table 10.1 Structure of taxes and the rate of redistribution in 2000(%)

Country	A. Direct tax /GDP	B. Indirect tax /GDP	C. Social Contribution /GDP	A+B+C /GDP
Hungary	9.5	18.1	11.5	39.1
Poland	10.2	13.9	10.0	34.1
Czech Rep.	8.9	13.2	17.3	39.4
CE average	10.9	15.1	12.9	37.5
Sweden	23.4	15.6	15.2	54.2
Austria	12.4	16.4	14.9	43.7
Germany	11.4	11.7	14.8	37.9
Spain	9.8	13.3	12.1	35.2
Portugal	10.3	15.4	8.8	34.5
Greek	10.5	15.9	11.4	37.8
EU15 average	14.9	14.4	15.2	41.6
United States	15.1	7.6	6.9	29.6
Japan	9.2	8.0	9.9	27.1

Source: OECD, Revenue Statistics 1965-2001, Paris, 2002.

It appears that the rates of redistribution in Central European countries are continuing to decrease and approach EU levels, or even go below the average EU level as seen in Table 10.1. However, the tax burden of income earners in these countries is incredibly heavy, which is not visible in the aggregated figure of the table. As opposed to ex-Soviet Union countries, the taxa-



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tion system in the Central European countries works well in terms of tax collection. The main sources of state budgets are personal income tax and VAT, since corporate tax revenues have decreased to almost negligible levels as a result of the collapse of many state enterprises.

Table 10.2 Tax rates in Central Europe in 1999 (%)

	Hungary	Poland	Czech Republic
Standard rate of VAT	25	22	22
Corporate tax	18	34	35
The highest rate of personal income tax	42	40	40

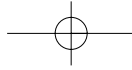
Note: The highest rate of personal income tax seems not to be so high compared to that of a developed country. However, as in Hungary, even a 20% tax rate is applied to minimum wage and a large proportion of taxpayers reach the highest zone almost in one step.

As can be seen in Table 10.2, the maximum rate of personal income tax is not especially high, but this does not mean that the burden of income tax is not heavy. In Hungary even the minimum income earner has to pay 20 per cent income tax, which is certainly high for low-income earners, and almost all income earners reach the maximum rate. For example, if one earns 4000 USD per year (not monthly), then he is already in the highest tax bracket in Hungary. Roughly speaking, the net income of individual income earners is about two-thirds of gross income after income tax and social security contributions have been taken away. If saving rates are supposed to be around 10 per cent of disposable income, then the VAT burden on the remaining disposable income is about 15 per cent of gross income. This means that almost one half of gross income goes to the state budget in the case of Hungarian income earners. The situation is more or less the same in other Central European Countries.

We can say that the level of tax burden in Central European countries is similar to that in Northern European countries. Nevertheless, the level of welfare in the transforming countries is far inferior to that of Northern European countries.

A heavy tax burden and poor social services are characteristic phenomena in the transforming countries, where only the rich and politicians are able to profit from the system. Not only is the taxation system very favourable for the rich, but the rich also possess the know-how to evade taxation, and the politicians of ruling parties own the decisive right of deciding how state money is to be used.

The reform of governmental bureaucracy and public sectors are pressing issues, though changes are very slow in coming. In government offices, the



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typical system of using small working rooms, that is, a small partition system comparable to a professor's room in a university, hinders effective cooperation and organization. The system has resulted in narrow-minded sectionalism, inefficiency, irresponsibility and reluctance in creating reforms of their own system. These fatal defects of bureaucracy remain unchanged and are even getting worse due to the outflow of talented people to the private sector. At the same time, contrary to high expectations, politicians are utilizing the weakened bureaucracy for their own profit and not using the money for the effective reform of public sectors and bureaucracy.

Similar situations prevail in hospitals, schools and other social institutions financed by the state, where no actual reform of management has been carried out even 12 years after the collapse of the old regime.

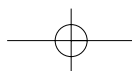
If the management of state organizations and public sectors is reformed and thus a substantial reduction in superficial personnel can be achieved, the government can then essentially reduce peoples' tax burden and supply more reasonable social services.

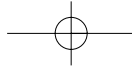
10.5 Hope for the future: election as judgment of the public

Almost every general election in Central European countries since the beginning of the transformation has so far resulted in a change of government. Thanks to the changes, most major parties have already enjoyed a ruling period and have known where channels of money flow connected with privatization and state budget distribution exist, which, interestingly enough, has brought out *de facto* mutual surveillance systems for extraordinary abuse of status among politicians. In this sense public votes have so far played an important social role by passing judgment on the ruling of government parties on behalf of unreliable and incompetent prosecutors.

Although foreign investors do not like frequent changes of governments, so far only the changes in political power have brought about the cleansing of the quasi bribery activities of politicians, bureaucrats and managers, and thus societies have barely maintained minimum social justice where the prosecution system does not work at all.

The disclosure system of individual assets of MPs has already been introduced in Hungary, but no one trusts the seriousness of the self-declarations of MPs, most of which are so laughable that no form of media will have anything to do with them. This might be so partly because the media itself does not function as a social monitor and decisive power in Hungary, and partly because people are very tolerant and quiet about bribery and government





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corruption. This silence can be explained by the fact that for a long period of time any protests against government and party corruption under the old regime were strictly punished.

The time has come for politicians to get a hold of themselves and make political life correct, in line with true social justice. That was the message and the expectation of people who voted for FIDESZ, the Young Democrats of Hungary, at the previous election held in 1998, who were considered to still be immune from corruption. However, the young politicians also fell into the trap of corruption and scandal. It is a huge disappointment for people who expected them to normalize political life, making it free from corruption.

The Hungarian public, once again, made a good decision in changing government from the young politicians to the 'old' socialists, who suffered a bitter loss in the previous election because of their corruption ties. In Hungary, people punish politicians every four years and thus Hungary barely keeps a mutual surveillance system in place between the opposing party and the ruling party by exchanging their role and position. We all hope that politicians will learn from their experiences and become more astute and more self-restrained through the periodical change in their roles.

Nevertheless, the process of political transformation continues.

Notes

¹ Moreover, in the midst of the political turmoil, the executive committee of the Socialist Party decided to give the highest state award to the former Prime Minister, Horn, on his 70th birthday. The Medgyessy government took the relevant steps to allow the award to be given. However, the Hungarian President, Madl, didn't agree and in the end the award was not given. The Socialists' reasoning lacked sense and Madl was right to not to give Horn the award. The celebration of a politician's birthday was a typical political showcase of the Communist era, so therefore it is difficult to understand why the Hungarian Socialists made such a decision at a time of intense political controversy.

² See the play 'Taking Sides' (published by Faber and Faber, London, 1995) by Ronald Harwood. The Oscar winning director, Istvan Szabo, made a film of the same name in 2001. The play questions individual responsibility in totalitarian society through the hearing of Wilhelm Furtwängler on his involvement in the Nazi regime. The story is historical, but the topic is universal.

