Reflected unevenness – Hungary and the global economy since 1989

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Abstract
Following the dissolution of the command economies of Central and Eastern Europe (CEE) in 1989, Hungary, with its reform-minded history, was generally looked upon by mainstream economists as a future model for successful transition in the region. However, with two decades of hindsight, the outcome of Hungary’s transition-associated adjustments has been far from satisfactory. Today, it is hardly an overstatement to claim that the economic consequences of these policies have been uneven at best, but more often disastrous for the majority of Hungarian society. Elsewhere in the region, trends point in the same direction. As if this were not enough, the current world economic crisis has placed further strains on the already beleaguered economies of the region.

With this in mind, this paper looks at Hungary as a case study, in order to understand why post-transition development has been such an uneven process, and whether this “unevenness” is the result of “bad governance and/or policies”, as has often been argued by mainstream scholars, or whether it is “structural. Looking at two different accounts of uneven development in the region – neoliberal political economy and classical Marxism (in particular Trotsky’s theory of combined and uneven development) –, this paper argues in favour of the latter, emphasising that its dialectical notion of development provides a forceful antidote to unilinear visions of “smooth” growth. On the basis of this, it is claimed that a critical appraisal of the central tenets of classical Marxism can assist both in developing a deeper understanding of the variegated impact of the current global economic crisis and the mounting pressures that it is placing on individual countries.

Introduction
This year marks the 20th anniversary of the political revolutions that shook CEE in 1989. In many regards, this was a truly historic event. Almost overnight, and with remarkably little resistance, the authoritarian one-party regimes that had dominated societies in Bulgaria, Czechoslovakia, East Germany, Hungary, Poland, and Romania for more than four decades disintegrated under the pressure of economic crisis and public discontent. The dramatic changes were generally greeted with euphoria and excitement about the future by the peoples of the region, who now saw a possibility to enjoy the same freedom and high living standards as their neighbours in the West.

1 I would like to thank the organisers of the conference for accepting this paper, as well as offering much needed financial support towards my participation at the conference. Also, I am indebted to the comments of my supervisor, Professor Gareth Dale, on an earlier draft of this paper. For any comments or questions, please contact me at: Adam.Fabry@brunel.ac.uk.
2 With the exception of Romania, the absence of large-scale social conflict and violence was a remarkable feature of the East European revolutions. In fact, as Tony Cliff noted, “there were fewer violent clashes in East Germany, Czechoslovakia and Hungary during the fall of these regimes than there were between the police and striking miners in Thatcher’s Britain of the mid 1980s.” Cliff, 1996, p. ix.
3 These hopes were well summarised by Miklós Vásárhelyi, who had been Imre Nagy’s press secretary during the Hungarian revolution of 1956 and was subsequently imprisoned after the suppression of the revolution. In 1989 he told a New York Times reporter: ‘First of all there will really be a Europe again. The countries of Central and Eastern Europe will finally get an opportunity to unite with the West. We will begin to live under the same
In policy circles, many commentators drew the conclusion that this could only be achieved by opting for systems of liberal democracy and free market capitalism. According to this view, which quickly became hegemonic amongst policymakers in East and West alike, the downfall of Stalinism symbolised ‘the failure of an entire system’; the ultimate proof of the market’s superiority over central planning as an organisation of society. This idea was most famously summed up by the neoconservative American philosopher and political economist, Francis Fukuyama, who, in what turned out to be a highly influential article, argued that the demise of Stalinism represented the ‘unabashed victory of economic and political liberalism’, marking not only the ‘triumph of West’, but also ‘the end of history as such … the end point of mankind’s ideological evolution and the universalization of Western liberal democracy as the final form of human government’. The political and economical conclusions of his argument were simple enough: the West had won the Cold War, and socialism, as a political philosophy as well as a project of human development, was finished.

As it turned out, Fukuyama’s article, for all its faults and simplifications, summed up the spirit of the time. His arguments came to provide the ideological basis for the political and economic reforms that were implemented in the former one-party regimes. At the heart of these reforms was the idea that the implementation of political reforms, based on ideals of liberal democracy, freedom, and civil society, together with neoliberal economic reforms stressing the need for rapid liberalisation of the economy, would bring not only greater individual freedom, but also economic success and higher living standards to the crisis-ridden economies of the region. Hungary, with its history as a front-runner of market reforms within the Soviet bloc, was generally considered to be a future model for successful political and economical transformation in the region.

However, with two decades of hindsight, the outcomes of transition-associated adjustments in CEE have been far from satisfactory. Indeed, it is today hardly an overstatement to claim that the effects of neoliberal restructuring on these societies have been highly uneven, at best, but more often devastating. More will be said about this below, here we shall only highlight the principal results of transition-associated adjustments on the region: a significant decline in economic output; a sharp rise in unemployment (a factor, which remained unknown prior to 1989, as a result of the enforced nature of labour under the authoritarian regimes); declining standards of living for the majority of the population; growing social inequality; and the development of poverty as an emblematic feature of these societies.

As if this were not enough, the current global economic crisis has placed further strains on the already beleaguered economies of the region. The Hungarian economy has been particularly badly hit by the downturn, and, in late 2008, when faced with a mounting debt

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Fukuyama, 1989, pp. 3-4. Interestingly, Fukuyama’s article actually preceded the political upheavals of 1989, written as it was in the summer of that year.
World Bank, 2002.
crisis and a potential risk of a ‘run on the banks’, the Hungarian government was forced to ask for a $25 billion bailout from international lenders. Adding to Hungary’s woes, its economic crisis is rapidly turning into a political crisis: the ruling socialist-liberal coalition is in complete disarray, while the recent European Parliament elections confirmed the rise of the extreme right, with the fascist Jobbik Party coming third in the elections, receiving around one-sixth of the overall vote. But Hungary’s problems are not only a cause for concern amongst for its own politicians. Increasingly ‘its fate is being watched with interest and alarm from Washington to Brussels’, as well, with Barack Obama warning Americans in March about the dangers of ‘these enormous ripple effects … wash[ing] back on to our shores’.

With this in mind, this paper takes Hungary as a case study in order to understand why post-transition development has been such an uneven process, and whether this “unevenness” is the result of “bad governance and/or policies”, as has often been argued by mainstream scholars, or whether it is “structural”. Leaning towards the latter explanation, this paper makes the case that these questions cannot be understood sui generis, through the lenses of a nation-state perspective, but must instead be understood in relation to recent changes in capitalism. In order to grasp this process, we shall argue that a return to the insights of classical Marxism, and particularly Leon Trotsky’s theory of combined and uneven development, is indispensable. This claim rests on the fact that classical Marxism questions many of the prevailing orthodoxies of a “smooth” global economy brought about by increasing globalisation, highlighting instead the continued relevance of “unevenness” as a fundamental feature of capitalist development. A critical appraisal of the central tenets of classical Marxism can therefore assist us both in developing a deeper understanding of the variegated impact of the current global economic crisis and the mounting pressures that it is, in this case, placing on Hungarian society.

**The logic behind economic reform**

Following the dissolution of the one-party regimes in 1989, the countries of CEE embarked on a path from centrally planned state capitalist economy to free market capitalism. At the heart of this programme was the belief that the market represented a panacea to all the problems of the ailing ex-command economies. Building on the economic theories of Friedrich Hayek, Milton Friedman, and others, mainstream economists, policy experts, and international financial organisations (IFOs), such as the IMF and the World Bank, argued that a radical overhaul of economy was necessary, in order for these countries to be able to “catch up” with the West. In the eyes of its proponents, these changes would, to begin with, contribute to what the Austrian economist, Joseph Schumpeter, called a “creative destruction” of the economy, in which previously unproductive sectors of the state capitalist economies would disappear, leading way for the entrance of new innovative capitalists that would provide the basis for a period of sustained long-term economic growth.

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11 The fear of a bank run was, as Gideon Rachman recently revealed in the Financial Times, a very real one. Those with a weak heart for conspiracy theories or superstitions, might even read something into the actual date when this fear was supposed to have reached its climax: Friday, 13 March 2009. See Rachman, 2009.

12 Rachman, 2009. Obama’s comments referred, in particular, to problems existing in Hungary and Ukraine.

13 While acknowledging that today there exist a number of different interpretations of the causes of “unevenness” within the literature, we shall here only focus on neoliberal and Marxist accounts of uneven development.

14 Originally coined by Isaac Deutscher, the term is here interpreted along the lines defined by Alex Callinicos, for whom it represents, ‘the revolutionary [tradition]… founded by Marx and Engels and continued principally by Lenin and the Bolsheviks, by Trotsky and the Left Opposition, by Luxemburg and by Gramsci.’ Callinicos, 1991, p. 2.

15 Schumpeter, 1970 [1942].
restructuring would, it was claimed, provide an end to the cyclical problems of capitalism while at the same time ensure the development of a “smoother” growth in the future.\(^\text{16}\)

Arguably, economic restructuring was claimed to become a “win-win” situation for rich and poor countries alike. At the heart of this claim was the theory of comparative advantage as developed by David Ricardo and his followers, which argued that ultimately even countries with uncompetitive industries would benefit from opening up their economies to international trade.\(^\text{17}\) While the Ricardian theory of comparative advantage has been the cause of much debate ever since it was written, it seemed to offer policymakers throughout CEE with ‘a simple rationale for an absolute economic convergence of growth rates’.\(^\text{18}\) However, as Dunford and Smith rightly noted, even if we accept the rather one-sided understanding of economic growth assumed by “smooth growth theorists”, convergence could only be achieved if: a) structural conditions are similar; or b) if the economies affected formed a ‘convergence club’ on the basis of sharing similar initial conditions.\(^\text{19}\) If these conditions were not met, ideas of “catching up” would quickly prove to be nothing but a mirage.

In practice, “convergence” was to be achieved by a combination of political and economic reforms. Politically, these reforms were to install liberal democratic institutions and strengthen civil society. At the same time, neoliberal economic reforms were to be implemented, which emphasised the need for rapid economic liberalisation, privatisation, and marketisation, while at the same time encouraged governments to move away from their state capitalist habits of active state intervention in favour of more restrictive fiscal and monetary policies.\(^\text{20}\) Here it is important to highlight that even though the neoliberal model provided a rather different view of the role of the state within the economy than the “regulatory state” envisioned by, for example, Keynesianism, it did not – as has at times been claimed – argue for a complete abandonment of the state’s capacities. On the contrary, adherents of the neoliberal paradigm adamantly stressed, both in theory as well as in practice, the need for a ‘strong state’ in order to provide for a suitable environment in which ‘growth promoting mechanisms’ could work properly.\(^\text{21}\)

Commonly known under the rather suspicious term, ‘shock therapy’,\(^\text{22}\) the central elements of neoliberal reform included: the sudden liberalisation of price and currency controls; removal of state subsidies, while at the same time emphasising fiscal and monetary austerity; and immediate trade liberalisation. In addition, it usually also included large-scale privatisation of previously state owned assets. A particular emphasis was placed on the need for speed in carrying out these reforms, which was to prevent the potential rise of a political

\(^{16}\) Dunford & Smith, 2000, p. 171.
\(^{18}\) Dunford & Smith, 2000, p. 171. For a recent critique of Ricardo, see Chang, 2002.
\(^{19}\) Dunford & Smith, 2000, p. 171.
\(^{20}\) Åslund, 2002; Marangos, 2004; Sachs, 1990; Williamson, 1992.
\(^{21}\) Csaba, 2007, p. 101. Since the early 1970s, when neoliberal theories came into prevalence within economic policy debates, the emphasis on the need for a “strong state” has resulted in private interests and many governments in the West to directly support non-democratic regimes. The most obvious case in point would be the case of Pinochet’s fascist dictatorship in Chile, which was viewed as the laboratory of neoliberalism in the 1970s, while their human rights records remained despicable.
\(^{22}\) These policies had previously been applied, often with disastrous effects, on a number of Latin American economies in the 1980s. Its proposed application on the economies of Eastern Europe is associated with former Harvard economist Jeffrey Sachs, who in an article in The Economist (1990) presented what came to be known as the main features of the “shock therapy” doctrine.
opposition that might reverse the direction of reform.\textsuperscript{23} Overall, neoliberal restructuring was heralded as a success story. As the liberal Hungarian economist, László Csaba, summed it up, this “market-based approach to development”\textsuperscript{23} would place the CEE economies en route towards a fast integration with the global economy, which in turn would bring economic success and higher living standards to the peoples of Eastern Europe.\textsuperscript{25}

A country often recognised as a front-runner of market reforms within the Soviet bloc, Hungary was generally predicted by experts in the West to develop into a future model for successful political and economic transformation in the region.\textsuperscript{26} According to the dominant political forces in Hungary, neoliberal reforms were going to transform the country into the financial hub of Central Europe.\textsuperscript{27} In order for this to happen, successive post-Communist governments have laid particular emphasis on pursuing policies of market liberalisation, in the belief that this would create an environment in which capital could be thriving, and as a result jump-start the economy.\textsuperscript{28}

**Weak results, bleak prospects – the outcome of Hungary’s economic transformation**

But the liftoff never took place. To begin with, the political transition has proven to be a much more complex process than initially forecasted. In terms of international politics, the countries of CEE are today firmly embedded under the rule of regional (EU) and global (US) hegemonic powers – with the difficulties that follow from this.\textsuperscript{29} Within the region, the transition has often been even more problematic, with many unsolved problems from the past recurring after 1989. Thus, the political transition of the region has been plagued with national fragmentation and internal instability; problems with the establishment of democratic institutions; a growth of nationalist and extremist movements; and increasing threats to minority and human rights.\textsuperscript{30} These problems can also be recognised in contemporary Hungary: external relations with neighbouring countries are characterised by frequent disputes (most recently regarding the disallowed visit of Hungary’s President to Slovakia), while internally, growing right wing extremism is causing increasing threats to the country’s minorities (the Roma in particular), as well as placing mounting strains on the country’s democratic institutions.

Secondly, economic transformation has, at best, brought highly contradictory outcomes, but more often resulted been catastrophic for the majority of the populations of the region.

\textsuperscript{23} Sachs, 1990, p. 25; Sokol, 2001, p. 646. With regard to this, “shock therapy” seems to have been highly successful: while ex-Communists have returned to power at one stage or another in all the CEE countries, the market has been accepted as a *sine qua non* of economic policymaking by all mainstream parties in the region ever since the transition.

\textsuperscript{24} Himself a great supporter of this approach, Csaba defines the central feature of this approach as resting on the view of the market as “the fundamental coordination mechanism through which the vicious cycle of poverty can be overcome.” Csaba, 2007, p. 101.

\textsuperscript{25} Åslund, 2002; Marangos, 2004; Sachs, 1990; Williamson, 1992. In their very sober critique of neoliberal reforms in Eastern Europe, radical political economists László Andor and Martin Summers, have described the architects of these policies as “Market Maoists”, whose blind fate in the blessings of the market could be likened to the utopianism that characterised the economic programme of China’s Cultural Revolution of the 1960s and 1970s – with the only difference that this time around, the “great leap forward” was to be into capitalism and not Communism. Andor & Summers, 1998.

\textsuperscript{26} Jeffries, 1993.

\textsuperscript{27} Tamás, 2009, p. 36.

\textsuperscript{28} Cox & Mason, 1999, p. 88.

\textsuperscript{29} For example, during the 2003 invasion of Iraq, eight countries from the former Soviet bloc (including Hungary) opted to join the invading forces, despite strong opposition from their own populations.

\textsuperscript{30} Sokol, 2001, p. 646.
Economic restructuring in the 1990s contributed to an unprecedented collapse in output, which even surprised supporters of market reforms. Following the first decade of economic transformation, the results of were so bad that even the World Bank, which throughout the period remained one of the staunchest advocates of free market capitalism in the region, had to admit that, ‘The magnitude and duration of the transition recession was, for all countries, comparable to that for developed countries during the Great Depression, and for most of them it was much worse.’

In the case of Hungary, opening up the economy to the exigencies of global capitalism proved to be a disastrous move. As a result, the 1990s became something of a “lost decade” for the Hungarian economy. During this period the economy underwent a period of prolonged crisis and economic stagnation, from which it took almost a decade to recover (Hungary only surpassed its 1989 level of output in 1999!). The economy finally started to recover after 2000, growing by a rate of 4 percent annually until 2006, but then bumped into new problems when the introduction of further austerity measures, instituted in the name of “global competition”, as well as to curb the country’s growing budget deficit, brought it down to below 3 percent per year. However, the current economic downturn has brought an end even to this meagre growth. For 2009, the economy might be contracting by as much as 10 percent and experts see few, if any, signs of recovery ahead.

Thirdly, the region’s economic problems have contributed to a general rise in social inequality. Here, we shall concentrate on the consequences of economic restructuring on Hungarian society, but we emphasise that elsewhere in the region, trends point to the same direction. To begin with, the sharp drop in production contributed to the development of chronic unemployment as an emblematic aspect of the Hungarian economy. Despite the abundance of cheap and well-qualified labour, which brought in much needed foreign capital and new technologies into the labour process, the inflow of Foreign Direct Investment (FDI) did not counterbalance the amount of jobs being shed. On the contrary, similar to the fall in economic output, the loss of jobs were dramatic: in the period between 1989 and 1997, the Hungarian labour force decreased by one and a half million people (!), from 5 to 3.5 million, due to privatisation and restructuring. At the moment, the official unemployment rate is 9.6 percent, even if this figure is likely to grow as the economy will most likely continue to struggle to recover from the current crisis in the coming years ahead.

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32 World Bank, 2002, p. 3.
33 Eurequal, 2006, p. 2.
34 Eurequal 2006: 2.
35 Latest in line to express his doubts about the Hungarian economy was the ex-Chairman of the National Bank, Péter Á. Bod, who in a recent interview claimed that the economy would only reach its 2008-level in 2013. See Népszabadság, 2009.
36 See in particular World Bank, 2002. For country-specific studies, the works of Dale, 2004 and Hardy, 2009 point to similar trends in the case of the former East Germany and Poland.
38 Hungary has continuously been among the top recipients of FDI within the region since 1989. In the period of 1989-98, cumulative FDI inflows amounted to $ 16 billion, or $ 1 667 per capita. However, it needs to be stressed that on a global level, investment flows to the region remain small. Figures are from EBRD, 1998, p. 81, here quoted in Sokol, 2001, p. 648.
39 Adam, 1999, p. 92. More recent studies have confirmed this trend, with the Hungarian economy still being characterised by a low level of economically active people within the working-age population. Eurequal, 2006; Tárki, 2004.
40 Figures are from The Economist, 2009.
Chronic joblessness has also been a main contributor to the growth of poverty in Hungarian society.\textsuperscript{41} Economic restructuring caused a major decline in living standards and general welfare until 1995, with little recovery afterwards.\textsuperscript{42} According to a study conducted by the United Nations Development Programme (UNDP) in 2003, the number of poor people was as high as one-third of the Hungarian population (nearly three million people!).\textsuperscript{43} To make things worse for the poor, mainstream political parties have shown a remarkable consensus when it comes to curbing social spending, with welfare provisions strenuously being cut by both social-liberal and rightwing governments since the transition to the free market. Recently, fees have been introduced in public hospitals and unemployment benefits reduced to six months only. When added to the rise of unemployment and the decline of real wages in the wake of the current crisis, a significant rise in gas and electricity prices, promises of further cuts in social spending by the government are unlikely to contribute to an ease in the plight of the poor.

Class, ethnic, and regional aspects of Hungary’s post-transition crisis

Adding to Hungary’s woes, the difficulties stemming from its transition-associated adjustment are often intensified by conspicuous class, ethnical, and regional inequalities. With regards to class, the effects of economic restructuring set in almost immediately: already by 1992 the per capita household income for the top 10 percent of the population was nearly 7.5 times higher than in the lowest decile.\textsuperscript{44} This development was similar throughout the region, with societies in CEE witnessing the coming into existence of a relative minority in possession of extreme fortunes, the ‘nouveaux riches’\textsuperscript{45}, at the same time as poverty was swelling among the majority of the population.\textsuperscript{46}

A snapshot of the class structure of CEE societies today tells us that these inequalities still persist. As for Hungary, recent figures on class inequality levels show that the ratio between the highest and lowest 10 percent of per capita household income has increased since the turn of the century to 8.4 times in 2003.\textsuperscript{47} The major beneficiaries of the transformation have been a small minority of the population (10-12 percent), which has clearly improved its status in the new system.\textsuperscript{48} Comprising a combination of ex-nomenklatura members benefiting from their political and economic connections in the old regime and those that have gained from the arrival of foreign multinationals, the members of this group today live similarly lavish lives as their counterparts in other parts of the world. In addition to this group, there is the middle class (constituting about 30 percent of the population), for whom the transformation has been something of a mixed blessing.

Apart from these two groups there is the working class and the ‘deprived’\textsuperscript{49}. Comprising

\textsuperscript{41} Eurequal, 2006, p. 4.  
\textsuperscript{42} Eurequal, 2006, p. 3. As an interesting indicator of the general decline in living standards, the same Eurequal study shows that meat consumption still lags behind its 1980 level, which is a telling fact considering that Hungary is a country renowned for its preference for meat.  
\textsuperscript{43} UNDP, 2003, p. 56. On the basis of this, it is very difficult indeed to understand how The Economist could claim in a 2005 article that Hungary, ‘has almost no people living in poverty’. The Economist, 2005b, p. 63. (It should be noted that the UNDP’s figures were calculated on the minimum subsistence level, while The Economist based its claims on the World Bank’s standards, which amounts to a crude economic definition of poverty of $ 2.15 per person, per day.)  
\textsuperscript{44} Tárki, 2004, p. 50.  
\textsuperscript{45} Kolodko, 2000, p. 216.  
\textsuperscript{46} Kolodko, 2000, p. 216; Tárki, 2004, p. 94.  
\textsuperscript{47} Tárki, 2004, p. 51.  
\textsuperscript{48} Tárki, 2004, p. 69.  
\textsuperscript{49} Tárki, 2004, p. 69.
around 40 percent of society, the working class has been severely hit by the effects of the economic crisis and the narrowing labour market in the 1990s. For those workers that managed to survive the initial transition depression the situation has hardly turned to the better since. These workers have experienced a significant rise in the exploitation since 1989, as evidenced by an increase of working hours while at the same receiving lower real wages than before. Finally, at the bottom end of the scale are the remaining one-fifth of society, which make up for the ‘deprived’. Mainly comprised of peasants, unskilled manual workers, unemployed, and homeless people, these are those that have fared worst as a result of transformation and face little, if any, hope of improvement in the future.

Adding to the problems, poverty also has an ethnic dimension in Hungary, in the shape of the Roma population. The economic transformation had catastrophic consequences for the Roma: according to the UNDP, the employment rate of the Roma dropped by more than 50 percent, falling from 75 to 30 percent in the period between the mid-1980s and mid-1990s. If the head of the household is Roma, the incidence of poverty is almost seven times as high as for households where the head is not Roma. Writing in 1997, Martin Kovats, a British researcher of Hungarian Roma politics provided a dramatic, but certainly realistic summary of the Roma’s situation. He wrote:

‘The last ten years have been a disaster for the majority of Hungary’s Roma population. Most of those who had work have become unemployed, and young people coming through are denied opportunities. Half-hearted government policies to improve the social and economic position of the Roma have failed to halt the rapid rise in Roma poverty. Neither have they addressed poverty-related problems such as falling standards of education, anxiety, poor health, crime, prostitution, etc. The scale of problems are mounting and they have to be addressed if Hungary is to make any long-term social, political or economic progress.’

Since then, the Roma’s situation in society has grown worse still. Today, they are not only exposed to the dangers of unemployment and poverty, but also face widespread discrimination and segregation, as well as increasingly serious threats to their lives.

Finally, regional differences tend to further accentuate inequalities within Hungary. This is in part because the investments that have arrived from abroad have been unevenly distributed. While Budapest and the western parts of the country bordering the West have received the bulk of FDI flowing into the country since 1989, other parts of the country have seen very little of these flows. Particularly badly hit have been the industrial areas in the north and the east, which have suffered heavily from ‘the collapse of heavy industrial production and mining soon after 1989’. In a striking similarity with the areas of Britain that have seen the greatest job losses in manufacturing and the mining industry, these are the today the areas of Hungary that exhibit the highest levels of unemployment, poverty, and all the related social problems.

In summary then, the outcomes of Hungary’s economic transformation seem far from satisfactory. Instead of any process of ‘catching up’ taking place, the changes that have taken place since 1989 only seem to have demonstrated ‘the destructive power of capitalism.’

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50 Tárki, 2004, p. 69.
51 Adam, 1999, p. 120; Tárki, 2004, p. 69.
54 Tárki, 2004, p. 103.
56 Eurequal, 2006, pp. 21-22.
question that we are faced with is why Hungary’s post-1989 development has been so contradictory and uneven?

The neoliberal account of uneven development
The dominant account of uneven development in CEE is linked with neoliberal political economic theory. This is somewhat of an irony given that there is very little empirical evidence to support expectations of “catching up” and “convergence”.\(^{58}\) Notwithstanding these claims, neoliberals generally agree that the transition has done magic for the ex-state capitalist economies.\(^{59}\) This argument rests on the belief that capitalist markets, \textit{per certus}, work, and that therefore the introduced policies were based on ‘correct theories’\(^{60}\). On the basis of this, it is argued that those countries that have gone furthest to implement market reforms have generally performed best since the transition.\(^{61}\) This argument does, however, become incongruous at times. Hungary, for example, was up until the middle of this decade recognised by mainstream economists as a “frontrunner” of market reforms, when it suddenly fell out of favour and supposedly became one of the “laggards” of this process.\(^{62}\)

In the cases that neoliberals recognise the contradictory facets of economic liberalisation they dismiss any claims that development under capitalism is inherently uneven, and instead attempt to convert the doubtful by arguing that the reasons for why “convergence” with the West has not taken place are external to the market. This means that when markets do not work, it has to be blamed either on a “lack of markets” or on “external forces”, such as historical and cultural legacies, corrupt governments, inefficient state sector, lack of political consensus on future development, inability to adapt to changes in global capitalism, uncooperative trade unions, etc.\(^{63}\) With regard to the current crisis, for example, this translates into arguing that the reason for why it has hit CEE countries particularly hard is due to ‘neo populist’ governments, who have been attempting to satisfy the demands of their voters instead of keeping an eye on the health of the public finances.\(^{64}\)

Another notable aspect of neoliberal orthodoxy is the time dimension involved in its account of uneven development in the region. Here, the memory of neoliberals tends to only stretch as far back as the history of the Soviet system.\(^{65}\) The reason for this relatively short memory is that central planning is viewed as something inherently inferior to free markets, which in turn gives credence to neoliberal arguments that the longer time a country remained within the Soviet bloc, the further the country’s economy is lagging behind the West.\(^{66}\) Supposedly, this provides neoliberals with an explanation for differences between countries of the former USSR and its satellites. However, any serious investigation into the post-1989 development of the ex-command economies must necessarily rest on a longer historical perspective, which takes into account not only the position maintained by these economies within the world economy since 1945, but also before.\(^{67}\) In light of this, a different picture

\(^{58}\) Dunford & Smith, 2000; Sokol, 2001.
\(^{59}\) Csaba, 2007; Kornai, 2006.
\(^{60}\) Csaba, 2007, p. 90.
\(^{62}\) This contradiction is reflected in the writings of \textit{The Economist}, which in one article in 2005 was describing Hungary as the ‘best performer’ in the region, only to dub it in another article, later the same year, as ‘the laggard of Central Europe’. See \textit{The Economist} 2005a and 2005b.
\(^{64}\) This argument is, for example, made by Csaba. Here in ‘Innen szép veszíteni’, \textit{HVG}, 8 August 2009, p. 6.
\(^{65}\) Sokol, 2001, p. 649.
\(^{67}\) This argument is also made by Dunford & Smith, 2000 and Sokol, 2001.
emerges, showing that Eastern Europe began to lag behind Western Europe as the latter began to emerge from feudalism in the 16th and 17th centuries, which by the first half of the 19th century had contributed to the opening of a ‘significant development gap’ between East and West.68 Rather than diminishing with the growth of the world economy, Haynes and Husan rightly suggest that by the end of the 19th century this gap had ‘created pressures for rapid economic advancement in Eastern Europe’69. In their view, these pressures ‘have persisted ever since’, effectively turning the region into a ‘laboratory for different hypotheses concerning economic development.’70

As for the often-catastrophic social effects of economic liberalisation in the region, neoliberals argue that these are simply a necessary price to pay in world of increasing global competition. The famous Hungarian economist, János Kornai, claims for example that, “As long as capitalism is what it is, there will be unemployment, there will be income inequality, there will be economic winners and losers”71. Others admit that growing inequalities pose an increasing threat to the stability of these societies, but then try to counteract this by claiming that, ‘in open societies, and especially in the age of the information and communications technology revolution people no longer judge their lot on the basis of past experience [sic!]’.72

So how then should we counter the explanations given by neoliberal political economy relative to the uneven development of CEE since 1989? An easy way to dismiss these arguments would be to point the numerous cases in which empirical evidence goes diametrically against the above neoliberal framework. However, while empirical evidence remain highly important, a more sophisticated critique has to point to the ontological and theoretical shortcomings of the neoliberal approach. At the same time, it has to be able to offer an alternative view of the future, which builds on a more equal and sustainable distribution of the world’s resources. While there is an abundance of alternatives available within the literature, we shall focus on the contributions that classical Marxism, and in particular Trotsky’s theory of combined and uneven development, can provide to this debate.

Towards an alternative account – uneven development in Marx

The choice of classical Marxism can here be tied to the fact that it questions many of the currently prevailing orthodoxies within IPE of a “smooth” global economy brought about by increasing globalisation, highlighting instead the continued relevance of “unevenness” as a fundamental feature of capitalist development.73 In addition to this, the insights of classical Marxism add another feature to our understanding of globalisation and its effects by bringing into light ‘the social forces … the masses of the exploited worldwide’74 that are often left out in mainstream accounts of this process.

70 Haynes & Husan, 2002, p. 110. Taking into consideration the economic trajectory of Eastern Europe in the 20th century, which saw the pursuance of virtually all economic models of development available – ranging from the autocratic state-led development models associated with countries of the Czars, Emperors, and Kings of the beginning of the century; through the experimentation with free market capitalism in the period between the world wars; to the state-led development of the Stalinist regimes; and finally ending the century with a return to free market capitalism – within the politico-economic literature, this claim certainly seems to be valid.
71 Kornai, 2006, p. 236.
72 Csaba, 2007, p. 33.
73 See Friedman (2007) for a representation of the ‘smooth’ worldview. A very sober critique can be found in Rosenberg (2000).
Building on the insights of Marx, the classical Marxist understanding of development rests on a diametrically opposed conjecture of capitalism than mainstream political economic theory (both in its classical, well as more recent versions). For Marx uneven development was an inherent feature of capitalism, linked to the constant need for accumulation within the capitalist mode of production. This ‘inherent expansionary dynamic’ forced capital to move beyond the boundaries of the nation state in search of new markets with which to please its insatiable desire. Or as Marx himself famously expressed it in The Communist Manifesto:

The need of a constantly expanding market for its products chases the bourgeoisie over the whole surface of the globe. It must nestle everywhere, settle everywhere, establish connections everywhere. The bourgeoisie has through its exploitation of the world market given a cosmopolitan character to production and consumption in every country.

One and a half century later, this description seems like a remarkable prediction of the processes commonly so cherished by “hyperglobalizers”. In fact, in what seems as a highly ironical move, the above quoted passage was actually used by the World Bank in its 1996 World Development Report in order to celebrate the dynamism of the capitalist system and justify the introduction of the market into the countries of the former Soviet bloc. However, contrary to many of today’s “hyperglobalizers”, Marx emphasised that the development of capitalism was far from a harmonious, but instead an inherently paradoxical and conflict-ridden process. Thus, he wrote how:

The bourgeoisie, by the rapid improvement of all instruments of production, by the immensely facilitated means of communication, draws all, even the most barbarian, nations into civilisation. The cheap prices of its commodities are the heavy artillery with which it batters down all Chinese walls … It compels all nations, on pain of extinction, to adopt the bourgeois mode of production; it forces them to introduce what it calls civilisation into their midst, i.e. to become bourgeois themselves. In one word, it creates a word after its own image.

This passage, whilst containing the seeds of a Marxist theory of development, has given rise to much debate within Marxist and non-Marxist circles alike ever since it was written. The reasons for this debate can be tied to what Dave Renton has described as ‘a tension within Karl Marx’s theory of economic development.’ In Marx’s analysis, especially in Capital, capitalist development would be general and spread worldwide, integrating individual countries along the way into a system of commodity production. In so doing, Marx believed that it would create the material, social, and subjective conditions for the overthrow of capitalism and the development of a classless society on a global scale. According to this view, less-developed countries would follow a similarly ‘slow [and] … often traumatic’ path of development that had already taken place in more advanced capitalist countries (in particular in Western Europe). This notion was famously spelt out by Marx in the Preface to Capital, Volume 1, in which he wrote that, ‘The country that is more developed industrially only shows, to the less developed, the image of its own future.

For some, this was taken as a vindication for a deterministic interpretation of Marx’s thought. Led by the likes of Georgi Plekhanov, Karl Kautsky and others, this position became

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75 Ashman in Dunn & Radice, 2006, p. 89.
76 Marx & Engels, 1992, p. 15.
77 Marx & Engels, 1992, p. 8-9 (my emphasis).
78 Moody, 1997, pp. 43-44.
84 Marx, 1990, p. 91.
dominant within the *Second International*. In their view, the transition of different modes of production – as for example from feudalism to capitalism or from capitalism to socialism – was seen to be an automatic and almost inevitable process, determined by the development of economic factors alone (to the detriment of political and ideological struggle). The logical conclusion of this orthodox (and more pessimistic) reading of Marx was that socialism could only be achieved once the economic conditions were ripe for it.

But what this mechanistic reading of Marx misses is the particular method employed by Marx in *Capital, Volume I*, which although it seeks to provide the basis on which to construct a less abstract analysis, nonetheless remains highly abstract in nature. As a result, Marx ‘abstracts capitalist economic reproduction from social reproduction in general; from particular periods of capitalist development; and from the existence of nation states.’ As he writes, this is done:

> ‘In order to examine the object of our investigation in its integrity, free from all disturbing subsidiary circumstances, we must treat the whole world of trade as one nation, and assume that capitalist production is established everywhere and has taken possession of every branch of industry.’

However, Marx’s understanding more complex and multifaceted than what might be inferred from the above quotation. Whilst not being a theorist of uneven development *per se*, Marx’s method of analysis allowed him to recognise the complexities and contradictions of involved in capitalist development. Paradoxically, Marx expressed these views most clearly with regard to the development of Russia, a “backward” country in which capitalist social relations were still embryonic, but which Marx argued had the potential to sidestep the horrors associated with capitalist development and move straight to socialism.

Unfortunately, Marx never had time to develop his thoughts on uneven development into a theory before his death in 1883. However, as we can see from even this brief exposition of his thoughts on the subject, his approach provides critical insights for an understanding of why capitalism inherently produces uneven development and not the form of ‘smooth’ growth envisaged by mainstream economists. Ironically, it was to be a Russian Marxist, Leon Trotsky, who developed Marx’s views into a unified theory on uneven development. It is to him that we now turn our attention.

**The insights of Trotsky: capitalism as combined and uneven development**

Similar to Marx, Trotsky’s understanding of uneven development rested on the notion that capitalism needed to be understood as a world system. This notion can already be discerned in Trotsky’s writings on the Russian Revolution of 1905, summarised in *Results & Prospects*, where he clearly argued that by connecting ‘all countries together with its mode of production and commerce, capitalism has converted the whole world into a single economic and political organism.’ For Trotsky, these developments had methodological consequences, influencing the way in how a suitable framework of analysis for understanding capitalism ought to be constructed. Accordingly, he writes that:

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85 Davidson in Dunn & Radice, 2006, p. 19. Unfortunately, this deterministic view of history has often been ascribed – mistakenly – to the entire Marxist tradition (and, as a consequence, also to the works of Marx).
86 Ashman in Dunn & Radice, 2006; Fine & Harris, 1979, p. vii; Callinicos, 2001.
87 Ashman in Dunn & Radice, 2006, p. 90.
89 Davidson in Dunn & Radice, 2006, p. 14-15; Marfleet, 1998, p. 101. Marx’s views on the question of Russia’s development can be found in his ‘Letter to Otechestvennye Zapiski’ (1877) and ‘Third draft of letter to Vera Zasulich’ (1881), both of which are reprinted in Renton, 2001.
90 Trotsky, 2007 [1905], p. 87.
‘Marxism takes its starting point from the world economy, not as a sum of national parts but as a mighty and independent reality which has been created by the international division of labour and the world market and which in our epoch imperiously dominates the national markets. The productive forces of capitalist society have long ago outgrown national boundaries.’

As Colin Barker has argued, this proved to be a highly novel insight at the time. Debates had been taking place within many “late developing countries” about the causes for the uneven nature of capitalist development – in Trotsky’s Russia this was epitomised by the debate between Populists, like for example Vorontsov, and Marxists, such as Lenin –, but these discussions tended to focus on national factors alone as causes behind their country’s relative “backwardness”. However, by linking capitalist development within a country to the world economy as a whole, Trotsky was able to move beyond these one-sided views and develop a more dialectic interpretation. Thus, he came to recognise how the uneven development of capitalism on a world scale, “exerts pressures – “the whip of external necessity” – on backward countries, compelling them to attempt to “catch up” with their threatening rivals.”

But this did not lead Trotsky to draw pessimistic conclusions about the “inevitability of unevenness”. Instead, Trotsky stressed, in a similar way to Marx, the interrelation of societies under capitalism and came argue that this enabled “backward” countries to incorporate more advanced ideas, forms organisation, and work techniques without necessarily having to invent them all over again. Or, as he put it more eloquently:

‘The privilege of historic backwardness … permits, or rather compels, the adoption of whatever is ready in advance of any specified date, skipping a whole series of intermediate stages. Savages throw away their bows and arrows for rifles all at once, without travelling the road which lay between those two weapons in the past. The European colonists in America did not begin history all over again from the beginning. The fact that Germany and the United States have now economically outstripped England was made possible by the very backwardness of their capitalist development. On the other hand, the conservative anarchy in the British coal industry … is a paying-up for the past when England played too long the role of capitalist pathfinder. The development of historically backward nations leads necessarily to a peculiar combination of different stages in the historic process. Their development … acquires a planless, complex, combined character.’

Accordingly, “the privilege of historic backwardness” could, in Trotsky’s eyes, be turned into an advantage if the historical conditions were beneficial (a position that he came to witness in practice during the Russian Revolution). However, Trotsky immediately presents qualifications, which complicate this process and make it more difficult for “backward” nations to simply skip over stages in an overall dynamic of progressive development. To render his argument more logical, we choose to quote him at length:

‘The possibility of skipping over immediate steps is of course by no means absolute. Its degree is determined in the long run by the economic and cultural capacities of the country. The backward nation, moreover, not infrequently debases the achievements borrowed from the outside in the process of

91 Trotsky, 1962 [1930/1906], p. 22; here cited by Barker in Dunn & Radice, 2006, p. 73.
92 Barker in Dunn & Radice, 2006, p. 73.
93 See, for example, the debates taking place in Italy and Germany at the same time.
94 A similar position to that of Trotsky can be detected in the writings of a great contemporary revolutionary, Antonio Gramsci, who in his Prison Notebooks pointed out that, “[when studying international relations] it was crucial to analyse how the internal balance of forces was overdetermined by international forces and a country’s geopolitical position and to assess whether and how the latter balance modifies domestic forces, reinforcing or breaking progressive and revolutionary movements.’ He therefore deemed it ‘necessary to take into account the fact that international relations intertwine with these internal relations of nation-states, creating new, unique and historically concrete combinations.’ Gramsci, 1971, p. 116 and 182.
95 Barker in Dunn & Radice, 2006, p. 73.
adapting them to its own more primitive culture. In this the very process of assimilation acquires a self-contradictory character … The laws of history have nothing in common with pedantic schematism. Unevenness, the most general law of the historic process, reveals itself most sharply and complexly in the destiny of the backward countries. Under the whip of external necessity their backward culture is compelled to make leaps. From the universal law of unevenness thus derives another law which, for the lack of a better name, we may call the law of combined development – by which we mean the drawing together of the different stages of the journey, a combining of separate steps, an amalgam of archaic with more contemporary forms.97

What the passage above puts the finger on is the intricate relation between the universal and the national, the archaic and the contemporary, how these interact with each other, and what the effect of their interaction is in on individual nation states in an overall system of capitalist production. The outcomes are by no means given; the adaption of more advanced techniques from abroad does not always result in progressive change. As Sam Ashman justly points out, ‘It may instead serve to cement the reactionary. The conditions of the backward country itself are critical.’98

The complex relation between different societies under the capitalist mode of production and the distinct forms that this takes has long been a question of debate within the social sciences, in particular International Relations (IR) and IPE, without being solved.99 In the words of Justin Rosenberg, the field of the international has remained ‘analytically unpenetrated’100.

In recent years there has been a resurgence of interest in Marxist circles about the question of the international and its relation to individual states, and in particular on the applicability of Trotsky’s concept of combined and uneven development on relations between and within nation states in the arena of global capitalism.101 On the one side of the argument there is the position of those for whom combined and uneven development is understood to be a process takes places within the boundaries of individual nation states as part of a struggle for power between the forces of progress and reaction.102 Arguing along these lines, Neil Davidson separates between “uneven development”, which is described as a process that ‘occurs at the international level’, while “combined development” takes place ‘within the territorial boundaries of particular states’.103 However, this appears to provide us with an overly narrow perspective of combined and uneven development.104 A contrasting, and to us more sympathetic view suggests that “combinedness” is inevitably interlinked with the development of capitalism to a global system. Hence, “combined development” becomes not a feature of individual nation states, but instead the result of the linkages between countries and regions within this system.105 According to this latter view, as capitalism ages, it expands

97 Trotsky, 1977 [1932-1933], pp. 27; here cited by Ashman in Dunn & Radice, 2006, p. 94.
98 Ashman in Dunn & Radice, 2006, p. 94. The famous example cited by Trotsky was Peter I, who imported Western industrial and military techniques (which were paid for by loans from the West), and in the process strengthened serfdom and Tsarism.
99 For an overview of the different theoretical schools within International Relations (IR) and their positions on this question see Dale, 2004, pp. 21-32.
100 Rosenberg, here cited by Barker in Dunn & Radice, 2006, p. 76.
101 Here we shall only provide for a brief account of this debate, for a more detailed description, see the essays of Ashman; Barker; and Davidson in Dunn & Radice, 2006.
102 See Davidson in Dunn & Radice, 2006; Knei-Paz, 1977, p. 72-73; here in Ashman in Dunn & Radice, 2006, p. 94.
103 Davidson in Dunn & Radice, 2006, p. 23.
104 Similar claims are made by Ashman and Barker (both in Dunn & Radice, 2006).
105 Ashman, p. 94; Barker, p. 75 (both in Dunn & Radice, 2006). Barker’s position has also been shared by others, most notably by Justin Rosenberg.
geographically, uniting on the one hand the whole world under a single logic of accumulation, while at the same time producing political and social differentiation. As a result of this, a ‘causal mechanism’ becomes discernible, dividing the world into core-periphery countries. The interaction between the universal and the national within this system become multifaceted, thereby supplanting any unilinear models of development. Linear scales of development evaporate, leaving behind ‘only structural imperatives’.

At this point, it seems as if Trotsky’s analysis, even if not without ambiguity and limitations, provides for an apposite starting point from which to investigate capitalist development and its effects on individual countries (in our case why Hungary’s post-transition development has been filled with so many contradictions); the role of the state; and the way states and capital are connected in this process. However, before we move to a conclusion of our discussion, a quick retour to Marx’s theory of value is suggested.

The law of value of as an expression of combined and uneven development

According to both Marx and Trotsky, the uniqueness of capitalism as a system of social production lay in its ability to unite the whole world in a single interactive productive system, under the dominance of capital. As capitalism evolves, aspects of combined and uneven development become visible between different societies. In the words of Harman:

‘The capitalist exploitation of labour dissolves all pre-existing social forms, transmuting them into elements of a single capitalist world. Every tangible object is continually being reduced to a simple expression of a single, unitary substance – abstract labour. Every element of unevenness is continually being combined with every other element of unevenness to provide the totality which is the world market.’

Recently, Colin Barker wrote a highly stimulating essay pointing out how Trotsky’s theory of combined and uneven development could fruitfully be connected with Marx’s law of value. Barker bases his argument on the notion that the expansion of productivity, ‘creates a rapidly growing flow of commodities whose value must urgently be realised’, which in turn forces capital to move beyond its national boundaries. The competition that results from this process ‘translates into “international” pressure on the nations and industries of the entire world.’ To paraphrase Trotsky, the “whip of external necessity” comes back to haunt nations and corporations alike, forcing them to enter into a downward spiral of competition in order to maintain their competitiveness against other nations/corporations.

It is here that Marx’s law of value comes into the picture. In Barker’s opinion, the applicability of this “law” stems from its ability to, ‘[express] the capitalist form of combined and uneven development in summary manner’. Barker traces the combined and uneven development of capitalism to the two main aspects of the law: ‘[1] competition forces all

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106 Ashman, in Dunn & Radice, 2006, p. 94. Here, Immanuel Wallerstein’s world system theory seems, at first sight, to offer us with interesting insights as we seek to develop Trotsky’s notion of combined and uneven development. For Wallerstein’s works on world system theory, see Wallerstein, 1974; 1980; 1989. An abridged version can be found in Wallerstein, 2004.
107 Rosenberg, 1996.
108 Ashman, p. 94.
109 The title of this section is taken from Barker in Dunn & Radice, 2006, whose highly interesting essay raised my attention towards the many commonalities shared between the two theories.
111 Barker in Dunn & Radice, 2006, p. 80. This argument also bears similarities with Ashman’s notion above of a development of a “causal mechanism” within capitalism, which divides the world in rich-poor countries.
112 Barker in Dunn & Radice, 2006, p. 80.
113 Barker in Dunn & Radice, 2006, p. 80.
producers to produce with the minimum input of concrete labour time, and [2] forces a
tendency toward a normal rate of profit in all industries.¹¹⁴ For each clause to come into
practice, the law of value dictated convulsive changes in social relations of productions,
which, however, could only be achieved ‘once capital established its dominance over the
sphere of production.’¹¹⁵ The first clause stipulated the commodification of all factors of
production, ‘drawing all production into capital’s circuits’; while the second stressed capital’s
need to move freely between industries and nations, which was to be ‘made possible by
“freeing” labour from the means of production.’¹¹⁶ With both clauses, we see how the need
for a “strong state” became a sine qua non for the extension of the logic of capital
accumulation throughout all nations and industries.¹¹⁷

Once a world market built on the logic of capital accumulation has developed, the law
of value imposes itself on those subject to its power with ferocity, generating combined and
uneven development in the process. For a most eloquent description of the interrelationship
between Marx’s law of value and Trotsky’s theory of combined and uneven development, we
again turn to Barker. He writes:

The law of value, this modern expression of combined and uneven development, is not merely a
“description of regularities” but a prescriptive command, more … powerful in its real effects on
behaviour than any edict or fatwa. It subordinates not only workers and employers, but the mightiest
governments. Yet its forces derive, not from any powerful deliberative agency, but from the impersonal
workings of the capitalist form of combined development.¹¹⁸

As a final thought, we would like to briefly bring attention to a corollary feature of the
law of value, namely what Marx described as the “tendency of the rate of profit to decline”.
Here, we shall refrain from engaging in a longer debate on the subject, and instead only note
that, on the surface at least, this concept seems to offer ‘a neat dialectic’¹¹⁹ with the theory of
combined and uneven development. This, according to Barker, is the case, since the
‘interaction of capitals, through the circuit of production and circulation’, is in itself based on
relations between ‘unevenly advantaged capitals’, which leads to incongruities in the
investment of new production, and thereby tends ‘to cheapen commodities at the point of
sale.¹²⁰ Consequently, capitalists that are first to develop new production techniques, and in
the process manage to bring down the value of associated commodities, deliver ‘a nasty
shock’ to those who – for one reason or another – have remained with their old production
methods.¹²¹ Left with their outdated methods of production, these capitalists find – when they
bring their products to the market – that the general price has decreased and their output of
commodities (i.e. their capital) has diminished.¹²² Hence, we can begin to discern what Barker
describes as a ‘neat dialectic’, in which, ‘one process, accumulation, engenders through its
very logic its opposite, devaluation.’¹²³ In many ways, this “neat dialectic” illustrates the
paradox outcomes of “shock therapy” in CEE, in which “economic opening” not only
delivered an initial “nasty shock” to the economies of the region, but also tend to perpetuate

¹¹⁵ Barker in Dunn & Radice, 2006, p. 80.
¹¹⁶ Barker in Dunn & Radice, 2006, p. 80.
¹¹⁷ This also opens up the question of uneven economic development and power relations between states,
highlighting in particular the role of imperialism in international relations. However, due a lack of space we
cannot go further into this question here.
¹¹⁸ Barker in Dunn & Radice, 2006, p. 81 (emphasis in original).
¹¹⁹ Barker in Dunn & Radice, 2006, p. 81 (emphasis in original).
¹²⁰ Barker in Dunn & Radice, 2006, p. 81.
¹²¹ Barker in Dunn & Radice, 2006, p. 81.
¹²² Barker in Dunn & Radice, 2006, p. 81.
¹²³ Barker in Dunn & Radice, 2006, p. 81.
uneven development both *within* these countries, as well as *between* them and the more advanced economies of the capitalist core. In this sense then, the contradictory outcomes of the region’s transition-associated adjustments reveal themselves not simply as the outcome of malicious policy prescription by neoliberal economists in the West, but as an inherent feature of the logic of capital accumulation.

**Summing up, looking forward**

Looking back on the politico-economic development of CEE since the downfall of Stalinism in 1989, we see a period symbolised by great contradictions and uneven development. Focusing here in particular on Hungary, the period from 1989 until the present has been characterised by: the destruction of the state capitalist economy, on the one hand; while, on the other, the opening up of the economy towards the exigencies of global capital. Despite the fact that this process brought some much-needed foreign capital into the country, it did by no means lead to a process of “smooth” growth, as initially envisaged by those favouring policies of “economic opening”. Instead, the backside of Hungary’s post-1989 development is one of uneven economic development and growing social inequalities.

This paper has sought to provide a brief expose of two different approaches – neoliberal political economy and classical Marxism (in particular Trotsky’s theory of combined and uneven development) – towards how to understand the causes for the uneven development of CEE after 1989. Here, we have argued that the classical Marxist conception of “unevenness”, with its focus on the interaction of historical, national, international, and technological forces, while emphasising a dialectical notion of development, seems to provide a forceful antidote to unilinear visions of a “smooth” global economy. Building on the insights of Marx and Trotsky, can assist us in our efforts to develop a deeper understanding of the contradictions of capitalist expansion, in general, with its tendency for “unification”, while at the same time showing a propensity for “divergence”, and the effects of this process on individual countries.  

In light of this, it becomes clear that Hungary’s thorny road of development since 1989 has not been the result of a “lack of market reforms” or “external forces” (such as corrupt governments) – even if these factors have certainly added to Hungary’s woes –, but are due to general contradictions inherent to capitalism. This fact has been brutally reinforced by the current crisis, which has left the small and fragile economies of CEE “the weakest link in the capitalist chain”. With many economies in the region being in a state of virtual freefall, the crisis is rapidly turning into a political and social crisis. In order to offer a progressive alternative to the forces of reaction, a return to classical Marxism, and in particular Trotsky’s theory of combined and uneven development, seems to be particularly pertinent.

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124 Trotsky brilliantly captured these contradictions, when he wrote that: “By drawing the countries economically closer to one another and levelling out their stages of development, capitalism … operates by methods of its own […] by anarchistic methods which constantly undermine its own work, set one country against another, and one branch of industry against another, developing some parts of world economy, while hampering and throwing back the development of others. Only the correlation of these two fundamental tendencies – both of which arise from the nature of capitalism – explains us the living texture of the historical process.” Trotsky 1957 [1928], p. 19, here cited by Barker in Dunn & Radice, 2006, p. 82 (emphasis in original).
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