

Introduction to the special issue 'Hungary: From State to Market'

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The unprecedented ongoing processes to transform former socialist societies have attracted a lot of scientific activities in Central Europe as well as outside the region. The transformation offers social scientists a unique opportunity to investigate and analyse how the societal structure in Central Europe is being changed over the time, how these changes lead to other sets of opportunities and constraints for individual citizens, and how changes restrict the individuals' behavior. In many respects, a paradox of more opportunities, more freedom of choice offered by the transformation and a lower mobility on the labour and the housing markets because of the increasing uncertainties has been found. Another aspect of scientific interest involves testing the validity of theoretical notions of housing markets and labour markets that had been developed in market economies for countries transforming themselves from a planned economy into a market economy. This special issue of the *Földrajzi Értesítő* contains four papers, presented during the STEPRO (URU)-meeting "From State to Market" held on 8th July, 1997 in Utrecht - the Netherlands. These papers, written by Dutch Ph.D. students and discussed by Györgyi BARTA (Centre for Regional Studies - Budapest) and Zoltán KOVÁCS (Geographical Research Institute - Budapest), deal with different aspects of the transformation of the housing and labour market in Hungary.

Hungary was in turmoil in 1989. The former socialist regime in Hungary collapsed together with all the other socialist regimes in Central Europe. The socialist ideology based upon central planning was replaced by a neo-liberal economic model based upon the principles of a free market. Europe was in euphoria: the Cold War was over and the borders between East and West were opened. The year 1989 also marked the starting point, or in the case of Hungary rather an accelerated continuation of the process of economic and political transformation. This process aims to transform political and economic life towards a western type free market economy and political pluralism.

The fact that modern Hungary had already experiences with private initiatives and market principles, makes the country an interesting example of the ongoing transformation in Central and Eastern Europe. The well known practice of Goulash-communism, introduced under the leadership of Kádár resulted in the image of Hungary as being the 'friendliest barrack in the Soviet-camp'. The New Economic Mechanism, implemented in 1968, and further developed during the 1980s guaranteed a high degree of economic freedom to the Hungarian citizens as long they did not openly challenge the political dominance of the Hungarian Socialist Workers Party (i.e. Communist Party). A self employed sector and small scale private firms operating outside the socialist central planning system were already common features of the Hungarian society during the 1980s. On the societal level, a dual economy came into existence with a large scale centrally planned sector and a small scale private sector functioning besides each other.

On the individual level, many people employed in the state sector often had side jobs in the private sector. An unintended outcome of these 'liberal' socialist economic policies was an advantageous starting position of Hungary at the beginning of the transformation. Can the economic and political changes in other Central and East-European countries be described as a revolution, the transformation in Hungary can be interpreted as a "change of system".

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The ongoing transformation in Hungary can not be seen as one process but should be interpreted as a series of parallel transformations. The major elements of the changes comprise a political transformation, an economic transformation, and, as an outcome of the former two, a social transformation. As far as the political transformation is concerned, one can distinguish external and internal components (KOVÁCS, 1997). Probably the major external factors are the introduction of the Perestroika and Glasnost policies by former Soviet leader Gorbatschew, leading to the dissolution of the former Warsaw Pact and the gradual disintegration of the former Soviet Union. These simultaneous external process enabled the break down of the dominance of the former Hungarian Socialist Workers Party, the introduction of a plural democratic system and the intensification of the political connections between Hungary and the West.

An important external factor of the economic transformation was the collapse of the former COMECON market, linking the former Soviet-Union and most of the Central and East-European countries (KOVÁCS, 1997). The most important internal stimulus on the economic transformation comprised by the stagnating economy during the 1980s and as an outcome, the worsening financial position of the Hungarian state and the increasing foreign debts. It became financially simply impossible to maintain the former socialist planning and welfare system. Besides this urgent need to restructure the economy, there was a general belief in Hungary, held also by organisations like the International Monetary Fund (IMF), the Worldbank and the Organisation for Economic Cooperation and Development (OECD), that market mechanisms are a more efficient way to organise the economy than any degree of central planning. The economic transformation involved a clear shift 'from state to market'. The three major elements of the economic transformation comprised the redistribution of assets into private ownership, a farreaching deregulation of distribution mechanisms towards the market, and liberalisation of the former centrally defined prices (SKORA, 1994).

As there will be winners and losers of the ongoing political and economic transformation, one can expect a social transformation. The outcomes are already partly visible. On the one hand one can find a group of *nouveaux riches* who have been able to make a lot of money within a short period of time. On the other hand, there is a much faster growing group of poor. The final outcome of the social transformation, however, will be a matter of decades (TREIMAN & SZELÉNYI, 1992).

Although the major part of the legal framework of the transformation has been constructed since 1989, the real transformation has proved to be a long lasting process. During the socialist period, heavily subsidised housing and job security was guaranteed by the state. One of the negative outcomes of the withdrawal of the state from the housing and the labour market was a rapidly rising unemployment and an emerging homelessness. This illustrates clearly that the socialist welfare system has not been successfully replaced by a more West-European like welfare system. In this sense, one can state that a successful transformation of the labour and the housing market is an important precondition for a successful transformation as a whole (VAN WEESEP, 1991). It is clear that the rising unemployment and homelessness has already resulted in a decline of the popular support of the political and economic restructuring.

The transformation of the housing market changed the urban housing situation dramatically. The main reforms were focused on the privatisation of large parts of the housing stock, the shift of housing construction to the private sector, the deregulation of the rent legislation and the abolishment of state subsidies on new housing construction and existing housing. Around 40 percent of the public housing stock (848,000 dwellings in 1990) has been privatised since 1990 (HEGEDŰS, MAYO and TOSICS, 1996). Currently only about 13 percent of the total Hungarian housing stock is in public ownership. The state housing construction collapsed. More than half (52 percent) of the newly constructed dwellings was built by the public sector in 1980, however, this amounted only 3 percent in 1994.

Furthermore, the economic transformation has changed the labour market in Hungary drastically. On the one hand, after 1989 a great number of inefficient state industries

This special issue of the *Földrajzi Értesítő*, titled 'Hungary: from State to Market' and financially supported by the Urban Research Centre Utrecht (URU; former STEPPO), comprises four contributions, written and presented by Dutch Ph.D. students at the STEPPO-seminar 'Hungary: From State to Market' and a concluding chapter written by Györgyi BARTA and Zoltán KOVÁCS, who refereed the Dutch presentations during the seminar. These contributions are related to four different Ph.D. research projects carried out by the authors focusing on different aspects of the transformation of the labour and housing market in Hungary. Two Ph.D. students, Hans VAN HASTENBERG and Herman KOK initiated, coordinated and carried out the organisational work of the seminar, both of them are linked with the Urban Research Centre Utrecht (URU) at Utrecht University. The third Ph.D. student, Ruud DORENBOS is working at the Faculty of Spatial Sciences at Groningen State

University. The fourth Ph.D. student, Michael DE JONG-DOUGLAS has worked and been supervised both at the Geographical Research Institute of the Hungarian Academy of Sciences in Budapest and at the Urban Research Centre in Utrecht. The projects of the first three Ph.D. students are parts of the Dutch Scientific Foundation (NWO) Priority Program 'Transformation Processes in Eastern Europe' and they have been exclusively financed by NWO.

Hans VAN HASTENBERG's contribution 'Foreign direct investments, modernization of production and labour market changes in Hungary' deals with the impact of the modernization of the industrial production facilities on the demand for labour. This contribution is focused upon foreign direct investments (FDI), which are subdivided by VAN HASTENBERG into joint ventures, acquisitions and greenfield investments (entirely new plants). Hungary is the main destination of foreign direct investments in the whole Eastern Europe. The foreign direct investments have proved to be a major source of revenues during the privatisation process. But the foreign direct investments have also proved to be an effective way to obtain modern technologies, production facilities and management skills. This contribution also discusses the situation in Hungary during the socialist era before 1989, the modernization within companies with foreign capital participation and possible outcomes of modernisation on the demand for labor. It offers a theoretical framework for further research on industrial modernisation based on interviews with individual (foreign) companies in Hungary carried out during spring 1997. VAN HASTENBERG elaborates the hypothesis that greenfield investments will contribute substantially to the modernisation process. He also points out that cost-based investments have a higher scope for modernisation than market-based investments.

The contribution titled 'Transformation of the labor market in Hungary' written by Ruud DORENBOS discusses the major changes of the labour market triggered by the transition to a market economy. This contribution illustrates that the changes on the Hungarian labour market have manifested with different strengths on the regional labour markets. One of the major outcomes of the transition is that supply and demand on (regional) labour markets in Hungary are not in an equilibrium, which means that mobility becomes an increasingly important factor in the process of optimal labour allocation. Therefore, DORENBOS's contribution is based upon the labour mobility concept. In this paper, directions and sizes of mobility patterns are investigated. The analyses conducted for this paper are based on data of the Hungarian Labour Force Survey conducted in 1995 by the Hungarian Central Statistical Office. This paper discusses the findings that the labour mobility varies among the different regions in Hungary. The northern regions show the highest intensity of mobility. Furthermore, DORENBOS discusses the variety of transition probabilities between the different sectors. He shows that the transition from the different sectors to mixed sectors have the highest probability. Based upon the analyses, DORENBOS argues that the transition process has not lead to a sharp east-west division.

In his contribution 'Housing estates in Budapest: ghetto's or gentrification', Michael DE JONG-DOUGLAS aims to present an overview about the transformation of the housing market in Budapest, which is based on a quick shift from state ownership into private ownership by strategies of 'give away' privatisation to the sitting tenants and the 'right to buy' strategy. His contribution is focussed mainly on the high rise housing estates, built during the socialist period especially during the 1960s and 1970s. It becomes clear that the transformation of the housing market works out quite differently among the different estates. The geographical location, the quality of the dwellings and the current status of residents play decisive role whether the transformation will prove to be successful. There is a good chance that some housing estates will retain their current status and will be transformed into middle class owner occupied estates, while other estates are endangered to be transformed into the new ghettos on the longer term. Data for this presentation comes primarily from surveys conducted during 1995 as part of a major comparative study funded by the European Union on 'The Social and Economic Consequences of Privatisation in Central and Eastern Europe' (CIPA CT93 0082).

Herman KOK attempts to elaborate links between the changing housing market and labour market and individual migration behavior in his contribution titled 'Migration patterns in Hungary: a life course approach'. In order to investigate individual migration decisions, KOK has used the life course approach, which defines migration as a form of rational behavior subordinate to careers like the labour career, the household career and the educational career. The analyses made for this contribution are based on the Hungarian database of the Comparative Survey on Social Stratification in Eastern Europe, designed and coordinated by Donald TREIMAN and Iván SZELÉNYI (UCLA) in 1993 and supported by the NWO priority program 'Transformation Processes in Eastern Europe'. A parallel process of declining rural-urban migration (to the major cities) and a stable, slightly increasing, urban-rural migration is discussed. The greater freedom of choice initiated by the housing reforms can not compensate the collapse of the urban housing construction and the withdrawal of housing subsidies. The

high housing costs prevent people to move to the cities. It seems that the rural areas are relatively more attractive to move to, mainly because of the lower costs of living and housing. In what extent the urban-rural migration has to do with short or long distance migration and in what extent one can find an emerging western like middle-class suburbanisation or a more constrained suburbanisation triggered by the high costs in the cities, are questions to be answered by forthcoming analyses to be conducted in autumn 1996 and winter 1997.

In the final chapter Györgyi BARTA and Zoltán KOVÁCS attempt to combine the different presented aspects of the transformation of the housing and labour market in their contribution. They present current and possible future outcomes and consequences of the ongoing transformation. Furthermore, they discuss in what extent the presented research might be useful for future Hungarian research and policies.