

<http://internationalviewpoint.org/spip.php?article5874>



Hungary

The Political Economy of Hungary's New 'Euroslave Law'

- Features -

Publication date: Saturday 5 January 2019

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Demonstrations erupted on the streets of Budapest after the Hungarian parliament controlled by the fourth consecutive super majority of Fidesz government had just passed three crucial laws in a rapid parliamentary voting on 12th December, which oppositional parties claimed unlawful. The three major elements in the government's package were the Overtime Act, which quickly became better known as the 'Slave law', the centralization of the courts nomination procedure, and educational amendments, which permit the privatization of public universities.

Parliamentary opposition burst out in a loud protest in the house and made video recording on the voting process, which later went viral. After the call of one of their MPs for a peaceful public walk on Budapest streets to protest against the unlawful legislative proceeding, crowds gathered and sparked a mass demonstration. Demonstrators were mostly students, member of several trade unions and various activist groups.

Previously, other waves of demonstrations have been stirred by important legislations that were prepared similarly without any social dialogue or consultation with representative groups. Recently, this has been the case with 'lex CEU' forcing Central European University (CEU) to move out of the country, a process that in late 2018 has been complemented by decisions to cut funding to the Hungarian Academy of Science and various public universities. Before 12th December, students had been demonstrating in front of the parliament long before the parliamentary voting to express sympathy with CEU and demand free education. They set up tents on the square where they held what they called a free university: a public space for self-organized lectures and talks. This tradition of 'free university' goes back to previous student demonstrations and university squatting in the last few years. After the recent legislation, students expressed sympathy with workers and started to organize the demonstration with the support of trade unions.

After 12th December, the main focus of the new demonstration wave became the Slave Law, which allows companies to demand up to 400 hours of overtime work from workers (previously capped 250 hours a year), and to delay payments up to 3 years. Trade unions expressed their opposition as the law allows companies to negotiate overtime hours with workers individually, without the unions.

The prime minister has publicly defended the reforms, saying that workers who used to seek employment opportunities abroad for overtime work would now benefit from the law and work in Hungary. On the grounds that they disturb the peace of Christmas preparations, state media and highly ranked government officials deemed the demonstrations 'un-Christian' and inimical to Christianity. A recent survey from Policy Agenda showed that 85% of working age population rejected the Overtime Act.

The recent amendment to the labour code has been part of a series of labour reforms since this government took power in 2010. Flexibilization of labour relations has been a trend in Hungary almost irrespectively of the type of government in power, ever since 1990. What has been common in liberal, socialist and ultra-conservative governments is their eagerness to please multinational companies, most notably German carmakers, to invest in the country. The implementation of various neoliberal labour reforms since the 1990s used to be relatively uncontested in a situation of very high unemployment and massive labour abundance which were the historical legacies of economic shock therapy in the 1990s.

The new context of world-economic integration: reindustrialization

The economic crisis in 2008 hit Hungary particularly severely in comparison to countries with relatively similar level of development. The economic crisis and the subsequent collapse of the previous liberal-socialist government led to a landslide victory of the conservative party Fidesz, campaigning with the promise of economic decolonization and national revival. After gaining supermajority in 2010, Fidesz engaged in a program of "Euroreindustrialization". In reality, reindustrialization is a jargon in the political communication for a broader consequence of industrial restructuring in Western Europe: the relocation of standardized segments of production with low profit prospects to low-wage economies in close geographical locations.

In case of Central and Eastern European countries, particularly the Visegrad group, this process is dominated by German car industry which has come under immense pressure after the 2008 crisis to adapt to new world economic trends. Hungary is not the only and most exposed country to German automakers' relocation strategy in the region, but has been the one that provided the highest shares of national income as subsidies encouraging relocation. Three major brandowners, VW Group's Audi in Győr, Mercedes-Benz in Kecskemét and most recently BMW's new facility in Debrecen started operation. There are many large and small suppliers that are estimated to make up a third of the country's industrial output and export share. Export dependence on Germany, a key factor of local economies, has increased to historical heights throughout the region. Approximately 120 000 people are directly employed by auto-manufacturers in Hungary and a similar number is employed by associated suppliers.

For the Orbán regime, subsidies for FDI in industries that produce for export has a key importance, and constitute an organic part of what liberal commentators call its "neoliberal" regime. Fidesz won the 2010 elections with the message of economic decolonization, a counter-narrative to the neoliberal hegemony of post-socialist decades. What in political communication was referred to as Hungarian economic interest, in economic policy meant a strong program for state-supported growth of national capital. However, the regime can only strive to broaden the manoeuvre space of national capital within the objective conditions of world-market integration. Subsidies for FDI in export industries helps keep the balance of payments in order, while non-tradable sectors where conditions can be shaped by state policies (such as banking, telecommunications or transport) see strong reorganizations of property in favour of the new oligarchic national capital. Meanwhile, in political communication, job creation by reindustrialization has been kept on the forefront of government campaigns, as a tool for legitimating anti-welfare policies, the transition from welfare state to workfare society embraced by Orbán.

German mercantile industry

As part of its reindustrialization agenda, the Fidesz government gave an upper hand to German industry in re-drafting important policy frameworks to benefit industrial relocation in the country. This went far beyond directly subsidizing multinational companies with tax cuts and property allowances. Industrial lobby groups, supported by the Hungarian Chamber of Industry and Commerce, have been directly involved in policy-making, and helped write many of the legislative drafts that meant to reform key policy terrains such as education, taxation and labor. That is, since 2010, modifications of the labour code have been written with the help of Germany industrial players. The result of the reindustrialization agenda has been highly detrimental for many people. The Hungarian government has explicitly and outspokenly given up on the representation of workers' interests in industrial relations, and instead solely represents the interest of industry, including their most influential segment, the German multinationals.

1. Taxation

One of the consequences of the policy interference demonstrated by investigative journalists is that corporate taxation among the European Union member states has become the lowest in Hungary. The official corporate flat-tax rate is 9%, but the effective tax which companies pay after various allowances is only 7,2%, whereas the 30 largest multinationals dominated by German manufacturers pay an effective rate of 3,6%. The counter-effect of such low corporate taxation with high subsidization of companies "many of these provisions are undisclosed" is the European Union's highest 27% VAT, the burden of which is put on wage-earners who are compelled to spend the largest share of their income on wage-goods for survival. It comes as no surprise that the Hungarian personal income tax system is almost regressive, with a universal flat rate of 15%.

2. Education

Along gifts to industry like tax credits and corporate subsidies, the German Chamber was also invited to help drafting key sections of the educational reform. With their help, Hungarian policy-makers introduced the blueprint of the German vocational training system, combined with the lowering of the compulsory minimum schooling age from 18 to 16-year. As a result, young people from poor families are compelled to spend their school years in the vocational system, and start working for industry at an early age. These young people are trained by the company involved in the vocational system, which helps the company to enforce the necessary skills it needs in the production. As much of the production relocated from Germany is highly standardized, companies need low- or semi-skilled workers. Therefore, students do not need to spend too much time in the school with general education. After a few weeks or months, they can obtain the necessary skills they are supposed to use in the factory. Sociologists of education fear that the short educational programs associated with the vocational training system can trap young people in the same factory position for their entire life without the prospect of improvement.

Besides the low level of qualifications, students are formally supervised by the school during the training and not directly employed by the companies, therefore companies are not obliged to pay them equal wages or offer them secured contracts. In short, the vocational training system has been designed by German industrial lobby and their Hungarian associates to provide the current wave of reindustrialization in the periphery of Europe with cheap, specifically trained and flexible labour, as young as legally possible. The other aspect of the educational reform was the centralization of public education, and a massive divestment from higher education and the Hungarian Academy of Sciences.

The ousting of CEU, one of the most internationally renowned universities from Hungary was loaded with ideological stakes, but constituted just the tip of the iceberg in this process. Hungarian public universities have been forced to downsize capacity, disintegrate faculties, and eventually be privatized. Students' frustration in bigger cities has long been the marker for the contestation with what the government's reindustrialization agenda means for education. In terms of students' protests and organization, the most memorable actions took place between 2013 and 2015, when bottom-up student organizations in different universities squatted campuses including one of the biggest Budapest-based campus of ELTE. They also blockaded bridges, and joined by junior high school fellows they turned key junctures of Budapest into spontaneous late night street festivals with vibrant political messages. Well organized students managed to achieve some of their early wishes, such as the removal of the controversial educational deputy secretary of the Christian Democratic Party, and the suspension of the planned university fee system.

Student demonstrations spiked again after attacks were launched on the CEU. At this time, because of the more complex geopolitical context around it, including prime minister Orbán's aspirations as the new global anti-Soros far right leader, the stakes were too high. Ultimately, the students could not derail the government's hostility towards the university despite "or maybe even because of" the widespread international solidarity with CEU and the political debates it triggered in the European Parliament and amongst the coalition partners of Fidesz in the European People's Party [\[1\]](#).

3. Labour reforms

Labour regulation is the other most important domestic policy terrain for Hungary's reindustrialization where German industrial mercantilism meets Hungarian state capacity. The first major amendment to the labour code came not long after Fidesz took power. As mentioned earlier, the labour reform was the continuation of previous practices meant to attract German industrial capital by providing the most flexible labour conditions possible. As several studies have showed (Laki et al., 2013; Berki and Neumann, 2015), the labour code of 2012 significantly weakened trade unions, and increased management power. The most recent changes under the label of the 'Slave Law' fit perfectly to this long trend of flexibilization and deregulation. However, the overarching reform of the 2012 labour code were really the turning point in flexibilization: a more decentralized regulation of allocated cumulative working time frame was introduced, which was meant to help companies to adjust to very hectic business cycles. The reform made it possible for them to force overtime work when demand is high, but put workers into un- or underpaid idle when demand is low. As a consequence, working time frames pushed incomes down. Today, the extension of the working time-frame to 400 hours per year is a form of preparation for a coming downward cycle, as it not only forces overtime work in the recent upward trend but also allows companies to lay off workers or to put them into idle for a longer period when the cycle turns around. According to the new legislation companies can choose to pay the overtime wage only in this extended idle period which in the case of foreign-owned companies can also be beneficial in optimizing currency exchange exposure.

Moreover, flexibility pushed the wage system to a state where basic wage is low and the proportion of various achievement-based elements is high (e.g. for overtime work). As a result, various forms of precarious employment, for example, temporary agency workers (TWA) or fixed-term contractors, increased dramatically. TAWs, for instance, doubled between 2012 and 2014. Within the general tendency, this comes as no surprise: as production units get lower in the supply chain 'now being rapidly relocated to Eastern Europe' the quality of contracting also gets weaker. Companies double-benefit from it: they can use the more favourable working conditions in their Eastern European factories while also having strong disciplining tool when they need to force concessions out of the stronger trade unions in Germany, where the effects of relocations have also been devastating for blue-collar workers.

Workfare regime

Another important historical legacy reinforced by the series of labour reforms is that the Hungarian labour market has become highly fragmented during the transition. On the one hand, demand for industrial workforce is now rapidly rising due to the upward trend in the business cycle and the massive industrial relocations to the country. On the other hand, structural unemployment stemming from the world economic crisis is still very high too, demographically condensed in the poorer, Eastern regions of the country. For this segment of the workforce, the Fidesz government introduced another disciplining measure, the so-called public workfare initiative.

Fidesz' public work program substituted previous unemployment subsidies with a framework that provided workfare in exchange for obligatory public work (rechanneling funds dedicated to previous social transfer programs into this direction). Unemployed people are not automatically eligible to participate in the program: it is up to local governments (dominated by Fidesz across the country) to 'invite' people into the program. Put under the control of the Ministry of Interior, this program epitomized the long-term trends of postsocialist policies, long criticized by experts for giving increasing discretionary power in the hands of authorities. The workfare program itself, completed into its present form by Fidesz, was initiated by the pre-2010 Socialist-Liberal government.

In the unemployment peak after the 2008 crisis, approximately 5% of the active Hungarian workforce was employed by the public work program. Although, at this point, the program was highly criticized by liberal elites as a waste of

money, it gained popularity among the affected people, especially in regions where generations were doomed to stay outside of the formal labour market. The program was also popular with rural middle classes who have been frustrated by previous policies of redistribution to the poorest, a frustration that was at the base of radical right party Jobbik's successful anti-Roma campaign in 2008-2010.

This new workfare regime produced highly controversial effects on local social relations. In many areas, the majority of the local population ended up in a newly forming patronage system between the local municipality representing local elites as employers and the people in the public workfare programs.

Within these systems, mayors themselves became more dependent on central funds for the public work program, as access to it is also based on political and personal loyalties. In small villages this created a very personalized and open form of old-style patron-client relationships, which the liberal media referred to as feudal. This new patronage-pyramid is based on the highly centralized allocation of the central fund along tight political links and loyalty "Euros" similarly to the way state-owned companies had to negotiate with the government during state socialism "Euros" but it also provides the local ruling classes with essential tools for disciplining and regulating unsatisfied local labour in areas where no other employment alternatives exist.

Unexpected labour shortage

Around 2016, the business cycle shifted from two decades of labour abundance to a sudden shortage of labour. Although the rapid shift was a surprise to policy-makers, the structural tendencies behind the process were not new at all. On the one hand, the intensification of reindustrialization created conditions of increasing demand for low and semi-skilled workers. On the other hand, free movement of people in the European Union mobilized workers from Hungary facing increasing economic pressures at home to seek better opportunities abroad. Because of the very harsh treatment of the workers since at least 2012, some workers sought to find better opportunities not only in Western Europe but even in some neighbouring countries, like Slovakia or the Czech Republic. Approximately 600 000 people are estimated to have left the country in the last few years. The majority of them are not only skilled workers for whom there has always been a high demand in Western Europe, but also large segments of the semi- or low-skilled workers decided to go.

Labour shortage has become such an acute problem for industry, including German carmakers that they put an increasing pressure on the Fidesz government to intervene. Earlier attempts targeted public workers, e.g. some amendments were added to the public workfare initiative that allowed people to take up jobs in the industry if the municipal government agreed. In addition, the government announced a massive reduction of public servants in the administration, with the aim of pushing these people into the labour market. These measures proved insufficient, as for many public servants it was not preferable to leave the relatively reliable public workfare where they could negotiate with the mayor to a highly exploitative and hectic industrial workplace for just a few more Euros. For senior and experienced public servants who have served several administrations, industrial workplaces has not been a viable option.

This is the context in which the government decided to intervene more radically into labour relations in the interest of the industry. As the challenges of labour shortage originate in a deeper structural position of the Hungarian economy and German car industry in the context of the global economy, the solution doesn't seem to be easily achievable and the political crisis continues in Hungary. As a last instance, a group of MP's from all the parliamentary oppositional parties, including liberals, social democrats, greens and far-right members entered into the state-owned public television to publicly air a five-point demand crafted with civilian protesters. These are: cancellation of the overtime law, less overtime work for police officers, independent judiciary, joining the European Prosecutors' Office, and independent public service media. The MPs spent a night in the public television

headquarter office building, but could not manage to voice the demand as they were later violently forced out from the building by a private security company that was hired by the television. The security firm used to be part of the interior minister's business network before his ministerial inauguration. After state president Áder signed the amendment to the labour code on 20th December, the Hungarian Trade Union Confederation called for a boycott and a general strike.

Labour and politics: agency in the demonstrations

While indignation over the Slave Law is shared by the large majority of the population, the structures that can give voice and concrete potential to that indignation are relatively weak. The parliamentary opposition, squeezed into the realm of symbolic politics by the overwhelming political and infrastructural power of Fidesz, actively used their remaining organizational power to boost the visibility of the demonstrations. Their actions made it clear (again) how far Hungary's politics has shifted towards authoritarianism. However, they also focused the public's attention on oppositional politicians and on calls for action that repeated unsuccessful projects for opposition parties' unity that have constituted the dead end of each demonstration cycle ever since 2010. This helped to shift attention away from the Slave Law, the workers whom it affects, and the trade unions who took an active role in thematizing the broader, structural dimension of the conflict. In post-socialist Hungarian politics, political parties in opposition tend to ally with workers' claims, and then continue the flexibilization trend when they come to power. Before the parliamentary election on April 2018 the most effective oppositional party in approaching unions at their plants to mobilize white-collar workers who were dissatisfied with the harsh labour conditions was the far-right Jobbik. The novelty of the situation today is that all the oppositional parties seek to find new links with trade unions, especially after Jobbik suffered serious losses in the April's parliamentary election. In the present case, socialist party politicians particularly prominent in this outreach, Jobbik, or the new oppositional formation Momentum, campaigning with a pro-Europe, liberal agenda, can hardly be trusted as long-lasting pro-labour allies.

Students and workers

The novelty of the demonstrations today is that it is the first time for students and workers to explicitly organize in solidarity with each other. Students who joined the demonstration voicing their own cause expressed solidarity with workers. A new left media-site Merce.hu emphatically covered demonstration news from a labour and trade union perspective.

Ironworkers' sectoral union (Vasas) also expressed reciprocal sympathy for students. Vasas typically brings together plant-level unions from larger companies, especially in those with higher demand for skilled labour. A call for a general strike has been already voiced but the prospect is not without questions. Trade unions themselves became decentralized during the transition period and much of the industrial bargaining takes place at the plant level. On the side of labour, organizations have been weak ever since the regime change. Because of the decentralization of collective bargaining from the sectoral to the plant level, trade unions tend to operate under a non-conflictive policy, which also mirrors their dependency on the goodwill of central power. Some peremptory strikes in the automotive industry in the last few years signalled the rising significance of labour in this sector. Today, many trade unions reacted to the Slave Law with an open, explicit rejection and with threats of strikes, which is a new element. In its harshness, the Slave Law may provide an opportunity for a paradigm change in trade union organization towards a less dependent model that is more embedded in workers' participation. Moreover, such collaborations between workers and students may build connections that can become significant in the future; at the current level of workers' dependence on the regime's various functions, and the lack of a mass organizational power of unions that would have preceded the Slave Law, unions' capacity to organize a mass base for resistance may be limited.

Conclusion

We see the political conflict that erupted around the Slave Law as a clash reflecting the velocity with which the new local authoritarian regime has been repressing social reproductive capacities in the service of international capital. While political debates in the Western world tend to depict Hungary as an exotic case of extreme domestic illiberalism, we see this regime as a case of how destructive and disciplinary functions of the present capitalist crisis are embedded in the local society in regions that have less capacity to export their crisis elsewhere. As the world economic crisis forces German industry to reorganize and disenfranchise from Southern European regions, new authoritarian regimes in Eastern Europe seem enter economic-political alliances with it, seeking to shape European politics for their own benefit. Caught between its own aspirations and Germany's needs, in the face of the current business upswing and the context of severe labour shortage, Fidesz's not too innovative solution was to use its authority to the full and push for more flexibilization and exploitative forms of labour control. This move escalates the class conflict on which the regime is built, and partially transforms it into a political one. The outrage over the Slave Law marks a moment when the issue of labour has surfaced in public political discourse on a level unprecedented since the regime change. The struggles against it are shaping coalitions and organizational capacities that may become significant in the future. However, the agency that is being born in the resistance to the law is facing the weight and inertia of a collapsing global system.

1 Jan 2019

[LeftEast](#)

[1] [more details on that at http://www.criticatac.ro/lefteast/lex-ceu/](http://www.criticatac.ro/lefteast/lex-ceu/)