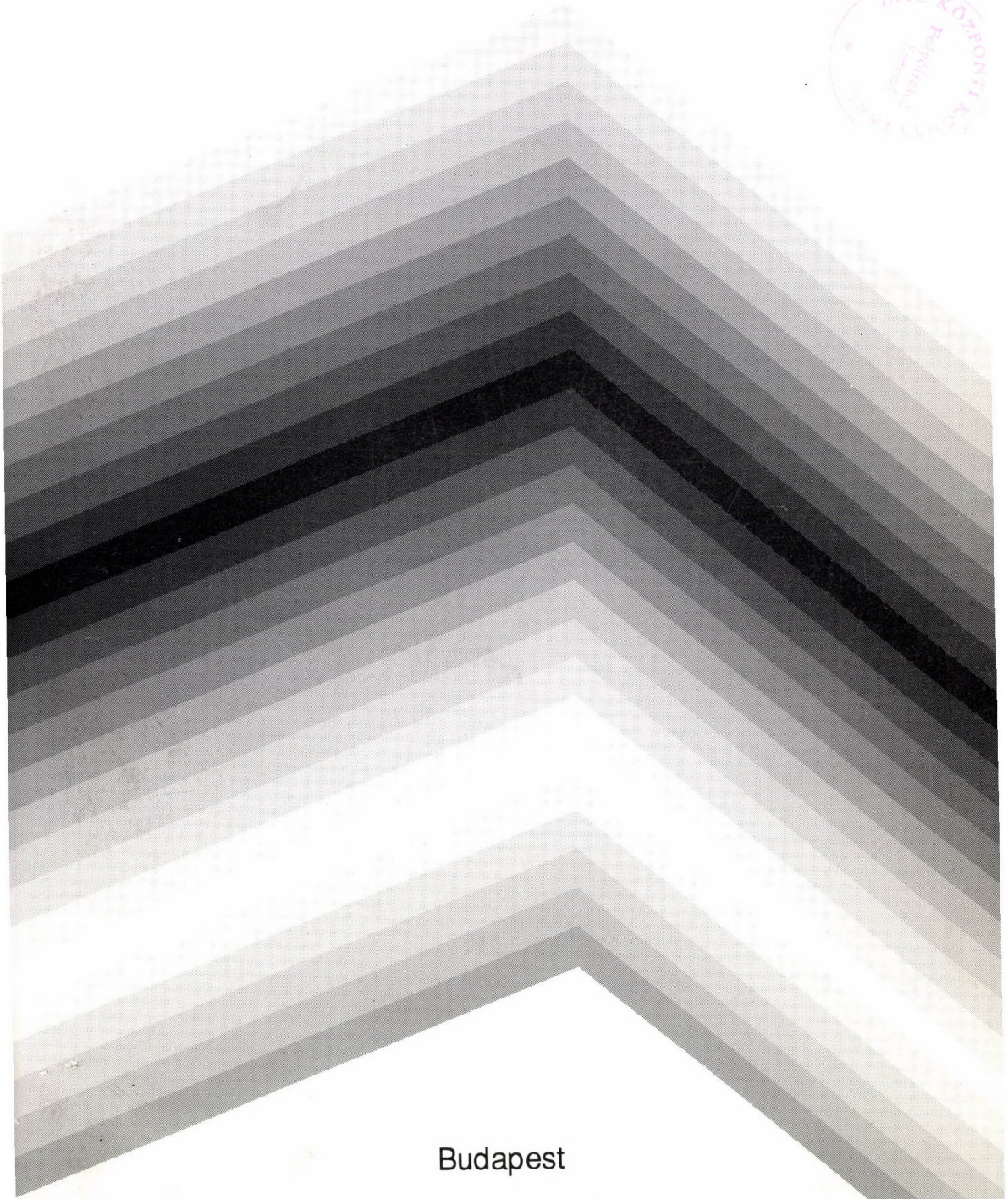


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REVIEW OF SOCIOLOGY



Budapest

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Contents

Poverty in Hungary in 1992-1995 <i>Rudolf Andorka, Zsolt Spéder</i>	3
The Network Approach: A New Paradigm? <i>Róbert Tardos</i>	29
Privatisation and the Laughing Third <i>Gabriella Fogarassy, Zoltán Szántó</i>	37
The Selection of Bank Managers in Hungary in the 80s and 90s <i>Éva Várhegyi</i>	46
Tax Behaviour of Small and Medium-size Enterprises <i>István János Tóth, András Semjén</i>	67
Changes in the Structure of Denominations in East and Central Europe <i>Miklós Tomka</i>	88
Local Revolution <i>Árpád Tyekvicska</i>	104

POVERTY IN HUNGARY IN 1992-1995

Poverty was taboo in Hungary right until 1981, when the conference of the Hungarian Sociological Association on multiple disadvantageous position was held. More exactly: journals did not publish papers, and publishers did not bring out books which mentioned the occurrence of poverty in the Hungary of those days. The media made even fewer references to poverty. Today the situation is almost the reverse: the media constantly deal with impoverishment and poverty, with its causes, manifestations and consequences. However, we are of the view that data related to poverty are known in a circle which is smaller than it should be, and social scientists have not yet discussed the problematique of poverty in the required detail and depth.

For this reason the present paper attempts to publish and analyse the most important data available from one of the fundamental sources of sociological data, the survey, known as the Hungarian Household Panel. It is not intended to make indisputable statements, and attention is called to the problems of data, methods and concepts, together with doubts that may be raised at the interpretation of data. With this it is hoped that we will be able to contribute to a professional discourse and to offer an objective basis for such a debate.

It should be stated in advance that only poverty will be dealt with, and impoverishment is not discussed, though in the media the two are often linked and even confused. The somewhat loose expression of impoverishment refers to the process when the real income of the individual or of the household falls. We have no exact data about how much of Hungarian society has experienced the fall of per capita income since 1989. It can be said with a rather rough estimate that at least two thirds of Hungarian society have been impoverished since 1989, while the real income of about ten per cent has grown, whereas the real income of the remaining part has been left at its earlier level.

The concept of poverty is much more precise: those people are called poor who are forced to live on an income below a certain income level. As it will be seen, of the various income thresholds used here, the proportion of the poor does not appear to be above 30-35 per cent even in the case of the highest one in 1995. The present paper deals with precisely that 30-35 per cent of the Hungarian society.

The source of data

All data are taken from the series of surveys entitled Hungarian Household Panel (Sík, Tóth, 1992, 1993, 1995; Tóth, 1994), with the exception of the macro-statistical data given in Table 1, and of the data of Tables 2 and 4, which are taken from the income surveys of KSH (Central Statistical Office). The Hungarian

Household Panel follows the method of similar foreign longitudinal surveys (Duncan, 1984), and particularly that of the West German ones (Hanefeld, 1987; Rendtel, Wagner, 1991; Zapf, Schupp, Habich, 1996). The latter were extended to the former East Germany immediately after reunification.

About 2000 households were included in the original sample of the survey. They were randomly selected, but the sample was strongly concentrated territorially (originally not all the counties were included). About 4500 individuals above the age of sixteen live in these households. A questionnaire was filled in about the households and about every individual above the age of sixteen. In addition, there were about 1200 children in those households; their data figure in the questionnaire of the household.

It derives from the nature of panel surveys that these households are visited each year (in May) and are questioned. The questionnaires primarily contain data about incomes and employment-unemployment. In addition - not with annual regularity - questions are put in many other topics. Such questions enquire about satisfaction, symptoms of psychological problems, manifestations of anomie and alienation. Data concerning the latter have been utilised in the present paper too. However, many other problems included in the questionnaire are not dealt with, for instance, preferences of political parties, religious sentiments, entrepreneurial inclinations, plans for emigration, etc.

The panel nature of data collection raises several problems, primarily because of the gradually occurring dropouts from the sample. The handling of these problems is not dealt with here; it should suffice to say that dropouts are counterbalanced by weighting, the practice used in the case of similar data collections abroad. In other words, in categories where dropping out is greater, the remaining members of the sample are multiplied by a weight greater than 1. Thus in theory the sample - if it was properly weighted - would reflect the characteristics of the entire population of the country in 1995 as well.

The panel has the special advantage of allowing not only for the study of annual cross-sections, but the situation and characteristics of the same individuals and households in subsequent years, so that the changes can also be analysed. Naturally such a longitudinal analysis raises new methodological problems: it can use only the data of those individuals and households where questionnaires were filled in each year of data collection, and on whose questionnaire the data studied are available (not unknown). This is the reason why the number of cases (already multiplied ones) figuring in the tables may be slightly different.

Concepts and methods

To sociologists it is obvious that there are quite a number of concepts of poverty. In this paper the one based on income is used. In other words we have not applied the concepts of multidimensional poverty and deprivation, introduced by Tamás Kolosi (1984) and Ágnes Bokor (1985) at the data collection on social stratification of the years 1981-1982. The primary reason is that, apart from poverty based on income, no other data related to other dimensions of poverty (such as poor health status) are

available from the panel surveys. This means that there are no data in this paper about those who can be regarded as poor for some other reason than their low income (very poor health status, very bad environment of residence, etc.). In other words the number of the poor, or people in a disadvantageous position is significantly bigger than the poor defined here only on the basis of income. Of course the panel surveys also offer possibilities to study poverty from other angles as well. Mária Gyenei (1995) for instance, tried to define who were poor and who were well off on the basis of the value of homes, equipment, consumer durables, property, etc.; that is on the basis of indices of possessions. According to that calculation, 17.6 per cent of the population was very poor, 12.6 per cent was poor, 43.8 per cent was in a medium material condition, 15.1 per cent was well-to-do and 11.0 per cent was rich in 1994.

If one concentrates on the study of poverty defined on the basis of income, even then several borderlines, or thresholds of poverty can be drawn. Two major types can be distinguished: thresholds of poverty based on the concepts of absolute and relative poverty. The former define an income by some theoretical considerations below which no income is acceptable. The various income minimums, particularly subsistence level, fall under this category. The latter consider those people poor who, for some reason, lag behind the average income, or, more simply: those who belong to the lowest income categories. It is not the intention here to enter into disputes on the concepts and thresholds of poverty, we only wish to indicate that five poverty thresholds are used in the present paper. They include the absolute poverty threshold (subsistence level), and the purely relative poverty threshold (below 50, or 60 per cent of the average).

1. The definition of poverty of people belonging to the lower two deciles, in other words to the lower quintile (the lower 20 per cent) on the basis of the per capita income of the household was used for the first time when the first wave of the household panel was analysed. According to estimates by Tamás Kolosi and Endre Sík (1992), 21.5 per cent of the population lived on incomes lower than the subsistence level of 1992. The proportion of those living below subsistence level has grown ever since. In the interest of comparing the results of the subsequent waves of the household panel we have applied this poverty threshold.

2. As long as KSH calculated and published the subsistence level, naturally we also used that threshold. This concept of poverty is particularly important when we wish to compare today's poverty with the 1980s, as the KSH subsistence level and the household income surveys of KSH offer an opportunity to assess the size of poverty in the 1980s and to study its composition.

3. As proposed by the World Bank, we used the minimum pension as a poverty threshold in data compilations prepared for the World Bank. The minimum pension can be interpreted as a subsistence level tacitly accepted by the state social policy. It is one of the paradoxes of the Hungarian situation that the minimum pension (just as the minimum wage) is lower than the subsistence level calculated by KSH.

4. Fifty per cent of average income is a very relative poverty threshold. Accordingly, those whose per capita weighted income is lower than the average per capita weighted income are regarded as poor.

5. When analysing the 1995 wave, we used 60 per cent of the average as poverty threshold.

We do not wish to take stands for any of the concepts and thresholds of poverty. However, each one has its specific advantage, and each is suited for answering certain special research problems. It is clear that the lower the income where the upper limit of poverty is drawn, in other words the less people are poor by our definition, the sharper the social differences of the occurrence of poverty would be. For instance, the lower the poverty threshold is, the bigger the over-representation of Roma ethnicity is among the poor.

A basic methodological question of poverty research and of income surveys in general is whether to calculate with the simple per capita income, or to apply some kind of weighting by the age and economic activity of the members of the household, or by the size of the household. With weighting normally the following considerations arise: 1. according to public opinion the needs of children are smaller than those of adults, 2. the needs of the economically inactive (or elderly) are smaller than those of active adults, 3. with the increase in the number of members of households a certain economy of size, or saving emerges in the field of expenditure; for instance, the cost of heating does not increase in proportion to the growth of membership.

There is no unambiguous proof of which weighting best reflects the actual consumption of households. However, we are of the view that the use of weighting describes the poverty of the households better than per capita income, or household income can do. The use of weighted income data is supported by the fact that they are internationally widespread. Such weighted income was applied at the poverty thresholds of 50, or 60 per cent of average, and of the minimum pension. With these concepts of poverty those people were included among the poor whose weighted, per capita household income was less than the corresponding poverty threshold. A very simple equivalence scale, used by OECD, was applied at weighting, the flexibility of which is $e = 0.73$ as a function of the membership of household, in other words, the weight of the first member of the household was 1.0, the weight of the second member was 0.73, that of the third was 0.53, etc.

Macroeconomic indices and changes in the inequality of incomes

The growth of poverty may have, and does have two reasons in Hungary: the unfavourable changes of the macroeconomy, in other words the fall of all incomes, and the growth of the inequality of incomes.

It would be wrong to forget that macroeconomic processes had rather unfavourable changes already in the 1980s: the GDP was almost stagnant; as a result the real value of the real income of the population hardly increased, and the index of real wages within it has been constantly falling since 1978. However, after 1989 far more unfavourable processes unfolded.

We do not wish to embark on the issue of how big a role was played in this by structural transformation, inevitably accompanying the change of the economic system, by destruction considered "creative", by the unexpected economic

depression occurring in the world economy as a whole, and particularly in the developed Western countries, and by the collapse of our export markets in the former socialist countries. However, it is beyond doubt that economic recession is far deeper and lasting than was expected in 1989-1990 either by the Hungarian economists and politicians, or by the vast majority of foreign experts. It may also be added that as far as we know, recession is much graver and prolonged in the former socialist countries east and south of us and in the majority of the successor states of the former Soviet Union.

The GDP has dropped by about 21 per cent (Table 1). According to macro-statistical data the fall of the per capita real income of the population was less, only about 11 per cent up to 1993. The fall of real consumption by the population is somewhat less. Two negative processes have directly affected the population and its incomes: 1. inflation, as a result of which consumer price level was about four times as much in 1995 as it was in 1989, in other words, the real value of an identical nominal income is only one fourth what it was in 1989; 2. the growth of unemployment. It should be added that the fall in employment (retirement, often early retirement, withdrawal from the labour market to the household) is more than double the unemployment peak of 13 per cent.

A decisive issue from the angle of the changes in poverty is how the economy fared during the past two years. Signs of the slowdown and end of economic recession could be sensed already in 1993; in 1994 the GDP, the real income of the population and real wages increased, unemployment decreased. In March 1995 the government considered the well known package plan was needed because of the large deficit of the balance of payment and of the budget. The measures introduced changed the new tendencies of 1994, indicated above. According to preliminary data, to be regarded as estimates only, in 1995 the GDP continued to grow, but real wages fell sharply, together with the significant fall of the real income of the population, inflation accelerated, and the fall of unemployment seemed to stop by the end of the year. As a result of the fall of real incomes, poverty has probably grown; it is bigger than indicated by the data of the household panel collected in May 1995 and covering the incomes of the previous 12 months. Nevertheless, it can be said that we have passed the lowest point of economic recession, so poverty need not necessarily grow in the coming years because of the falling GDP.

Income inequalities point in the opposite direction (Tables 2 and 3). We have data about the changes of income inequalities since 1962 from the household income surveys of the KSH, and since 1992 from the Hungarian Household Panel. It should be noted however, that data derived from the two different sources are not perfectly comparable, as the KSH data are the share of the deciles of individuals in the total income, ranked in order on the basis of the per capita household income, whereas the data of the Household Panel are the share of the deciles of households in the total income, ranked in order.

However, the trends of income inequalities can be inferred. There were income inequalities in the socialist period as well, and not insignificant ones at that. This is one of the scientific achievements of decisive importance of the KSH data collections (Ferge, 1969). From 1962 up to about the late 1970s income inequalities were decreasing slowly and not along a straight line, but they began to grow from

the mid-1980s onwards. After the systemic change income inequalities have suddenly and greatly grown, and while they seemed to have stabilised (or perhaps even decreased a little) by 1993, again started to grow in 1994 and 1995. It can be stated roughly that the income inequalities which used to be on the level of the Scandinavian countries in the socialist period, have increased to the level of West Germany, or to the average level of West European countries after the systemic change. A big question is how income inequalities will change in the future: whether they will remain on the European average, or grow further, to reach the level observed in the United States, or even in some Latin American countries. If the latter tendency prevails, it will not be promising for the reduction of poverty even if the GDP grows in the coming years.

The per capita household incomes by social stratum (Tables 4-5) give information on which strata are in a more privileged, and which are in a more adverse situation, and which strata have been the great losers during the course of the changes of income inequalities described above, and which strata have been able to retain, or even improve their real income. The KSH data and the data of the Household Panel cannot again be fully compared, as the KSH gives figures about the per capita income of households categorised on the basis of the head of the household, whereas the Household Panel data show the per capita average household income of persons above sixteen.

Yet the changes of income differences by stratum can be inferred from those data. In socialism too it was the higher managers and professionals who occupied the summit of the income hierarchy, the other white collar workers and skilled workers occupied the middle, and the unskilled workers and agricultural occupations were at the bottom. After the systemic change the income position of higher managers has not only improved strongly if compared to the national average, but also in an absolute sense, that is in respect of real income, and seems to improve yearly. On the average, professionals have been able to retain or improve their income situation a little, the former middle strata continue to occupy the middle of the hierarchy, though the average of their real income has decreased, while the 'lower' strata continue to occupy the bottom. But the tendency, shown by the Household Panel data, namely that all those who do not follow a usual, or 'regular' occupational career, have a far worse income situation, is regarded as more important. Extending our inference, it means that those households where one or more members belong to these 'non-regular' categories, are in a significantly disadvantageous position. These categories are the following: primarily and naturally the unemployed, but also those on disability pension (who retired before reaching retirement age), persons living on the pension of their deceased spouse (who do not receive a pension on their own right), as well as women engaged in household duties and other adult dependents. The old age pensioners do not belong to this category. At any rate, the conclusion can be drawn that those whose employment has ceased for some reason or other - unemployment, early retirement - or, who do not and did not do some gainsome work, constitute the most disadvantaged stratum of the society and their disadvantages have visibly increased during the past few years.

Since there are often doubts about the reliability of the stated income data, the differences among these social strata in respect of certain other indices, like homes, consumer durables and lifestyle were also studied. All the indices were developed so that we assumed the lack of an element of equipment in the home, of a consumer durable, or the lack of trips abroad as indices of social disadvantage, enabling us to draw inferences about low incomes (Table 6). It can be said that these indices have confirmed the differences of social strata and their order identified on the basis of income data.

In addition to the social and occupational position, the place of residence also involves significant social advantages and disadvantages. There has been a significant difference in the income of Budapest and the other cities and settlements (Table 7). This difference however, was slowly decreasing during the socialist period (up to 1982), but it has grown very strongly after the systemic change and still seems to be growing. If we consider only those settlements which are located in micro regions qualified as backward, the income disadvantages of the latter seem to be even more significant.

The extent of poverty

In the 1980s the number and proportion of those living on incomes less than the subsistence level was estimated to be around one million, that is ten per cent. It should be noted that even in those days there were different estimates of the number of the poor. The figure of one million is obtained if those who live below the national average subsistence level are regarded as poor. If the starting point is the different subsistence level of households of different composition and place of residence, and the number of the poor is assessed separately in these categories of household, then a somewhat smaller estimate can be obtained.

Tamás Kolosi estimates the proportion of those living below the KSH subsistence level to be 22 per cent in 1992, 24 per cent in 1993, and 32 per cent in 1994. He made this estimate by adding the non-stated income to the incomes recorded by the Household Panels which were stated at the macro-statistical data collections. In 1995 the KSH did not publish data concerning subsistence level, therefore the 30-35 per cent, estimated for 1995, is simply based on the fact that the average increase had hardly any decrease from 1994 to 1995 and the share of the first three deciles in the total income did not change if compared to 1994. Whatever the opinion of social scientists may be about the subsistence level calculated by KSH, it is absolutely clear that poverty has increased very significantly, by at least three-fold.

The spread of poverty is not so extensive if other concepts of poverty are employed. By definition the lowest quintile always contains 20 per cent of the population, hence this concept of poverty is unsuited for identifying the actual extent of poverty. The relatively moderate growth of the proportion of those with less than 50 per cent of the average income essentially expresses only the effect of the growth of inequality. According to the poverty line "below 60 per cent of the average", used only in 1995, 22.7 per cent was poor in that year. Finally, the

proportion of those having an income below the minimum pension has increased relatively less because the minimum pension has been raised annually but significantly less than the price index, meaning that the minimum pension has been equivalent to an ever lower real income each year.

The composition of poverty

The issue of who are the poor, the members of what demographic, social, etc. groups constitute poverty is far more interesting theoretically as well as from a practical social policy point of view than the number and proportion of the poor and their tendencies. Here the issue is put as follows: how many should be classified under poverty from the different demographic, social, etc. categories; what percentage would fall below the different thresholds of poverty; in other words: how big is the incidence of poverty by group.

The issue of poverty is often formulated in the American and West European literature on social science and in public discourse by saying that the society of "two thirds-one third" has developed, in which two thirds of the society enjoy the benefit of economic growth and of additional incomes, they live in increasing wealth, whereas one third is left out of these benefits and is poor in the long run, so much so, that it is practically excluded from society (Glotz, 1984).

This issue appears differently in the present Hungarian disputes. Usually it is assumed that a very wealthy and increasingly rich one tenth occupies the summit of the society, whereas about 30-40-50 per cent of the society is becoming impoverished at the bottom of the hierarchy, sinking into lasting and almost hopeless poverty. If the proportion of the poor is analysed by demographic and social categories in the case of different poverty thresholds, then the outlines of four kinds of poverty emerge (Tables 9 and 11): 1. traditional poverty about which we had quite precise knowledge already during socialism, 2. new poverty which has appeared since the systemic change, or, has drawn attention only since that point of time, 3. demographic poverty, 4. ethnic poverty.

1. Two factors are known from the socialist period which caused significant income disadvantages and were therefore accompanied by a far bigger than average occurrence of poverty: i. belonging to the strata of unskilled labourers and to that of the agricultural blue-collar workers with low school education as their corollary, ii. village residence. Both factors continue to be accompanied by a big risk of poverty, both (otherwise overlapping) social and residential strata have been significantly impoverished, in other words, they undoubtedly belong to the losers of systemic change. Yet it is not they who are the poorest and the greatest losers but the 'new poor'.

2. The unemployed have been the entirely 'new poor' since the systemic change. However, the retired disabled, pensioners on widow's pension, housewives and other adult dependents should also be classified under this heading, in other words, all those who have no job producing regular income, or who do not enjoy a pension paid after a career of more or less full employment. The 'new poor' come from among the 'traditionally poor' strata to a large extent, because they have low school

education, they are unskilled workers and peasants, and unemployment is much higher than average among the rural people and the members of these strata retire as disabled to a much higher proportion, they do not have a pension on their own right (and their entitlement is only as widows), and it happens relatively often that in families belonging to this stratum the wife does not have a gainsome occupation and there are other dependent adults as well. All this corroborates the commonly known fact that if somebody drops out of regular occupation this becomes one of the decisive factors of his life, causing poverty.

3. We have already noticed the tendency in the socialist period that, as contrasted to the former situation, an increasing number of children may be classified under the heading of the poor besides the older generations. Incidentally, this tendency can be observed in the developed countries (Rainwater, 1988; Smeeding, 1988; Smeeding, Torrey, 1988). This tendency, however, seems to have grown stronger after the systemic change.

Here a brief explanation is required to understand why the proportion of the poor is smaller among the elderly, and particularly among those aged 60-69. The likely cause is that the majority of the elderly population have acquired the right to a relatively high pension, and though the real value of pensions has decreased, the income situation of the population in retirement age has deteriorated less than the national average, partly because the real value of pensions could be protected against inflation to some extent (at least the pensioners were not threatened by unemployment, the major risk factor of the active age group), and partly because the old age population is being constantly replaced demographically, the older people on smaller pension die and are replaced by younger ones with higher pension (the real value of whose pension will decrease in the coming years). However, it should be stressed that the fact that the proportion of the poor is not particularly high among the elderly, does not mean that there are not groups among the elderly who live in abject poverty. Such are the people on widow's and disability pension mentioned above, people who have retired early during the past few years. The elderly living alone (in single member households) may also belong to this group. A large part of the latter are old rural widows. Finally there are the oldest people whose pension has sunk to the proximity of subsistence level, and who are unable to obtain even a minimum of additional income (for instance, by cultivating their garden around the house) because of their health condition.

Whatever definition of poverty is employed and whatever weighting, or scale of equivalence is used, today the poverty of children in Hungary is a very conspicuous phenomenon. We agree with the statement of the Florence research centre of the UNICEF (1993) that children are among the great losers of systemic change in East Central Europe. It is considered to be highly problematic from the angle of the future of Hungarian society that a significant part of our children are brought up under poor conditions at least in part of their childhood. This may be highly detrimental to many different sides of their life, from nutrition to progress in school.

4. Last but not least - and it should be stressed - there is poverty of ethnic character in today's Hungary. It was known earlier as well that a much larger than average part of the population of an estimated half a million people of Roma

ethnicity is poor. However, the Hungarian Household Panel offers an opportunity for the first time to make comparisons between the income relations of the Roma and non-Roma population. The reason being that earlier there was no possibility of identifying the ethnic origin of people in the national surveys. When the panel surveys were made, the data collector made notes (without asking questions) whether he/she considered the household questioned a Roma one. No doubt this is a far from perfect method but we were unable to find a better one. It should also be noted that the number of failed interviews was much higher in the case of Roma people, thus, as contrasted to the expected 5 per cent, a much lower proportion, only 3.8 per cent belonged to the Roma ethnic group in the samples of 1994 and 1995. Despite all these reservations the very fact that the 'overrepresentation' of the poor in the case of every poverty threshold is the highest among the Roma people, calls attention to the fact that they constitute the part of Hungarian society most endangered by poverty, and in all probability it is they who are the greatest losers of systemic change.

If the proportion of the poor is studied by types of households and not by individuals, some supplementary information may be obtained (Tables 10 and 12). There are more poor among the households with children than among the childless ones. The proportion of the poor is particularly high among the households with three and more children. The proportion of the poor is particularly high in households of the type of 'one parent and child'. If the head of the household is unemployed, it means a grave disadvantage to the household.

Lasting and transitory poverty

One of the most remarkable and most disputed results of foreign household panel surveys has been that poverty in those societies was mostly transitory, and people found poor in a given year would raise above the poverty threshold in the next one or several years (Duncan, 1984; Headey, Habich, Krause, 1990; Bernstein, Rendtel, 1991).

The results of the Hungarian Household Panel (Tables 13 and 14) also show that the movement of the population surveyed is very big between the income deciles. More than two fifths of those belonging to the lowest decile did not belong to that one in the next year, and about half of those leaving the lowest decile have jumped upwards by at least two deciles. Conversely, two thirds of those belonging to the lowest decile had not been there in the previous year.

In relation to this result one has to state several kinds of reservations: 1. crossing the threshold of a decile does not mean emerging from poverty, particularly if the average incomes and thus the limits of deciles have sunk, 2. if demographic events such as the birth of a child, increasing the number of household members, or a member of the household dies, retires, avails him- or herself of child care leave, etc., play a significant role in the annual changes of the income situation besides becoming unemployed or newly employed.

The most doubtful problem is how the earlier 'decile career' of the individuals and households influences movement upwards or downwards from the decile

position just occupied. In other words: how big is the possibility of a person who has emerged from the lowest decile to, let us say, the third, or fourth one, of sinking back to one of the lowest ones next year. A comparison of the quintile positions of the years 1992 and 1995 (Table 15) suggests that such major shifts did not take place during those three years as would appear if the changes were added up one by one.

In addition to the study of the transition matrixes between deciles or quintiles, the durability of poverty was also analysed so that the persons about whose income we had data in 1992, 1993 and 1994 as well, were classified according to how many times they fell below the various poverty thresholds during those three years. Thus, if subsistence level is chosen as poverty threshold (as it was seen, the proportion of the poor has been growing each year on that basis) then 10 per cent of the interviewees were poor 'at length' (in all the three years), 32 per cent were poor transitorily (for one or two years), and 59 per cent were not poor. Naturally, the proportion of those in lasting and transitory poverty is naturally smaller if poverty is defined by the lowest income quintile, below 50 per cent and below the minimum pension. However, our main conclusion must be that at present the bigger part of poverty in Hungary is of transitory nature, the majority is able to emerge from poverty temporarily or with a lasting effect. Yet it does not at all mean that the problem of lasting poverty is negligible. On the contrary, the problem of lasting poverty deserves an extraordinary attention from a theoretical as well as social policy point of view. Therefore, who are those who were poor at length, during all the three years is a particularly interesting question (Table 17).

Such an analysis brings out in bold relief which are the demographic and social categories particularly threatened by poverty in present-day Hungary: those first of all who belong to the Roma ethnic group, almost half of whom belonged to the lower quintile during all the three years, together with the unemployed, those who work in the household only and other adult dependents. It should also be noted how high the proportion of the long-term poor is among children between 0-19 and the young.

The consequences of poverty: dissatisfaction, psychological problems, anomie and alienation

In the individual waves of the Hungarian Household Panel, questions were put about satisfaction with the different dimensions of individual and social life, about the occurrence of somatic and psychological symptoms suggesting problems of psychological life, and about opinions and attitudes related to anomie and alienation.

It is known from other sociological data collections (Rose, Haepfer, 1994) and public opinion surveys that dissatisfaction with income, with living standards, with the economic and political situation of the country is very widespread in Hungary. Following the pattern of the German data collections, we have studied dissatisfaction by requesting the interviewees to indicate their dissatisfaction with the different dimensions of their own life and the condition of the country along a

scale of 0 (totally dissatisfied) to 10 (totally satisfied). We regarded as dissatisfied those who indicated 0-3 on the scale (Table 18). There are unambiguously more people among those who belong to the lowest quintile, that is among the poorest, who are dissatisfied with their income, living standards, homes, future perspectives and the entire pattern of their life. Thus the conclusion can be drawn that dissatisfaction with the material conditions of individual life reflects well the objectively more difficult situation. Correlation is much less strong between poverty and dissatisfaction with such non-material, human dimensions of life as the family, relatives and friends, colleagues and work in general. Dissatisfaction with the health condition is not bigger in the lowest quintile than in the next two. It is conspicuous that dissatisfaction with the economic situation of the country is almost equally big in every quintile and even dissatisfaction related to the possibility of citizens' political intervention, that is with the functioning of democracy does not show much difference by income. Therefore the conclusion can be drawn that the poor are not dissatisfied and complaining in general, but they are dissatisfied with those very concrete material conditions of their life where they are significantly disadvantaged.

According to studies by Mária Kopp and Árpád Skrabski on mental and health condition (1992) the proportion of those suffering from different psychological problems was rather high and growing in Hungary in the 1980s. In the Household Panel survey of 1993 some questions - taken over from the German data collections - were put which tried to explore the frequency of somatic and psychological symptoms indicating psychological problems. A study was made of whether these symptoms were more frequent among the poor than among the well-to-do (Table 19). It was found that all those symptoms - such as headache, palpitations, nervousness, exhaustion, trembling, worry for one's health condition, as well as feeling unlucky, the inability to overcome worries, and becoming confused if faced with more than one task at a time, are far more frequent among people in the lower quintile than among the better off. Thus the poor not only have to live on a much smaller income but they also suffer more often from psychological problems. This also leads to the conclusion that the main cause of the high frequency of such psychological problems should be sought in the bad material and income situation in Hungary.

Elsewhere (Andorka, 1994) we have expounded the hypothesis that a very deep and critical anomie and alienation had developed in the socialist period. Anomie and alienation were regarded as the slightly different sociological concepts of the same phenomenon, more specifically what is usually described by sociology under the terms anomie and alienation, are actually different sides of the same social crisis. In the 1993 wave of the Household Panel we tried to approach this phenomenon again with questions taken from German data collections. The answers received (Table 20) suggest the inference that many more people gave a positive answer in the lowest quintile than among the well-to-do in respect of the two dimensions of anomie and alienation, that is powerlessness and the meaninglessness of life. It should be noted however, that mentioning loneliness hardly shows any difference by income, suggesting that human solidarity still asserts itself among the poorest. It is even more interesting that again there does

not seem to be any difference between the poor and the rich in respect of violating norms of behaviour and rules. Thus the rather frequent violation of norms which can be observed in Hungarian society, cannot be simply attributed to poverty and impoverishment, because a far deeper crisis of norms is involved, which seems to be pervasive in every stratum of the society. This result also warns that the different aspects of anomie and alienation - such as the sense of powerlessness, the sense of the meaninglessness of life, loneliness and an inclination to violate norms should not be lumped together in the analysis, but they should be studied and interpreted one by one.

Some closing thoughts

We do not wish to state final and ultimate conclusions. However, we think that some ideas, extending over a broader circle, should be raised.

It is beyond doubt that poverty has grown sharply during the past few years and it hits a significant part of the Hungarian society. It is obviously a grave ordeal for the majority of the Hungarian society even if emergence from poverty does not seem to be impossible. Poverty is accompanied by a great degree of dissatisfaction, serious psychological problems and stresses. The different aspects of anomie and alienation, first of all powerlessness, the sense of vulnerability and the loss of faith in the meaning and understanding of life are very widespread among the poor.

The growth of poverty not only affects the poor gravely, but it affects and even endangers the development of the entire Hungarian economy and society. This statement can be supported primarily by the obvious fact that the society has to provide at least for a minimum care for those who have sunk into poverty, for instance, for giving aid to the unemployed, which necessarily means a significant economic burden. Taking a broader view, it could be said that the development of a modern economy primarily depends on how educated and skilled the members of a society are, how far they can meet the rapidly changing demands of modern technology and economy. The children of poor families have little chance of acquiring the necessary school education and knowledge.

Extensive poverty means an even bigger danger for social integration. Though it has to be admitted that societies in general, and modern societies in particular are characterised by the existence of conflicts among the groups of different interest, attitude and culture, yet we wish to stress our conviction that if a consensus is missing among these different groups, at least in respect of the basic institutions of the economy, society and politics, then conflicts may become so acute that they threaten the functioning of the economy and political democracy. An extensive, lasting and hopeless poverty is obviously a very grave source of conflict.

What can be expected and what can be done in the light of these thoughts in respect of the future of poverty? Obviously, the growth rate of the GDP and how lasting it is are factors of decisive importance. If inequalities of income do not change, then the growth of per capita GDP would sooner or later bring about the growth of the per capita real income, which would automatically reduce poverty.

However, it is a big question whether income inequalities will remain at the present level, or, continue to grow. It can hardly be stated that a further growth of income inequality would be necessary or desirable. Since we have already reached the West European level of inequality, nothing justifies a further shift in the direction of Latin American inequalities. It cannot be stated on a theoretical and philosophical level either that the growth of income inequality is desirable. One should remember the thesis of John Rawls (1972), who is perhaps the most prominent American liberal social philosopher, according to which inequalities can be accepted as long as they result in the growth of income and the improvement of living standards in the medium run, in other words: as long as they speed up economic growth.

Social policy is one of the means of moderating inequalities and mitigating poverty. Particularly in a period when poverty is growing, it is essential to have the safety net offered by social policy which protects people with low incomes from impoverishment. We are aware that the present social policy represents a rather big burden for the budget. In this situation however, its reform is desirable so that it can concentrate more on the poor and a drastic reduction of welfare support should be avoided by all means. Hopefully our empirical studies and analyses of poverty will promote the identification of those social and demographic groups which deserve the special attention of social policy because of the frequent occurrence of poverty among them.

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Table 1 Main macro-statistical indices of the Hungarian economy, 1989-1994

Year	GDP 1989= 100	Employment*	Unemployment rate, %	Per capita real income of the population, 1989=100	Index of real wages 1989=100	Per capita real consumption 1989=100	Consumer price index 1989= 100
1989	100	100	0.3	100	100	100	100
1990	96	99	0.4	98	96	97	129
1991	85	96	1.9	96	90	92	174
1992	81	86	7.8	94	89	91	214
1993	79	78	13.2	89	85	92	262
1994	82	74	11.0	92	91	93	312
1995	84	-	10.5	87	81	91	402

* Those people who have a job from where they have an income. Persons on child care aid and allowance were not counted under this heading.

Table 2 Decile distribution: The share of population deciles by per capita income of the total of personal incomes, 1962-1987

Decile	1962	1967	1972	1977	1982	1987
Lowest	3.9	4.0	4.0	4.5	4.5	4.5
2	5.6	6.0	5.9	6.3	6.0	6.0
3	6.5	7.1	7.0	7.3	6.9	6.9
4	7.6	8.0	7.9	8.1	7.7	7.7
5	8.6	8.9	8.8	8.8	8.5	8.5
6	9.7	9.9	9.8	9.6	9.4	9.4
7	11.0	10.9	10.8	10.7	10.5	10.5
8	12.3	12.2	12.1	11.9	11.8	11.8
9	14.6	14.0	14.0	13.7	13.7	13.8
Topmost	20.2	18.9	19.7	18.6	18.6	20.9
Topmost, lowest	5.2	4.7	4.9	3.8	3.8	4.6

Table 3 Distribution of deciles: the share of household deciles by the per capita income in the total of personal income, 1992-1995

Decile	1991/1992	1992/1993	1993/1994	1994/1995
Lowest	3.6	3.8	3.3	3.6
2	5.7	5.7	5.3	5.3
3	6.6	6.7	6.5	6.2
4	7.4	7.4	7.3	7.0
5	8.1	8.1	8.0	7.8
6	8.8	8.9	8.9	8.6
7	9.9	10.0	10.0	9.7
8	11.4	11.4	11.6	11.3
9	14.2	14.1	14.4	14.4
Topmost	24.3	23.9	24.7	26.1
Topmost/lowest	6.7	6.3	7.4	7.3

Table 4 Per capita household income in households belonging to different social strata, 1962-1987

Social stratum of household head	Per capita household income as a percentage of the national average					
	1962	1967	1972	1977	1982	1987
Manager and professional	154	410	150	142	127	125
Medium level white collar	128	122	115	108	107	117
Clerical	119	111	108	97	99	93
Skilled worker	109	103	100	99	99	102
Semiskilled worker	95	92	89	93	92	88
Unskilled worker	82	86	86	86	84	81
Agricultural	87	101	105	104	95	90
Pensioner	84	81	83	91	98	94

Table 5 Per capita average annual income by social stratum, 1993-1995

Social stratum	Per capita income as a percentage of the national average ¹			
	1993	1994	1995	N=1995
Higher and medium manger	162	184	211	158
Professional	140	156	163	250
Supervisor	114	138	137	120
Clerical	120	118	124	322
Self-employed artisan, merchant	122	121	131	162
Skilled worker	100	96	93	492
Unskilled worker	90	88	83	464
Peasant, agricultural labourer	85	83	84	86
Old age pensioner		101	95	1045
Pensioner on widow's allowance	96	78	75	153
Disability pensioner	87	80	78	290
Child care allowance and aid	83	70	76	167
Unemployed	78	74	68	188
In household		68	62	95
Other dependent	69	68	60	190
All 16 year-olds and above ²	100	100	100	4484

¹ As a percentage of the average per capita income of the 16 year-old and older interviewees.

² The present and all subsequent Tables do not include data concerning pupils due to their special position, or the data of those who have gainsome activities besides their pension, or of the helping family members because of the small number of such cases. But naturally they are also included in the 'total'.

Table 6 Home equipment, possession of selected consumer durables and trips abroad, 1994

Social stratum	The home has no				The household has no				Did not go abroad last year
	Running water	WC	Bathroom	Phone	Car	Automatic washing m.	Colour TV	PC	
Per cent									
Higher and medium manager	2.8	0.0	0.9	42.6	23.8	16.2	6.6	72.0	43.1
Professional	1.6	1.6	1.6	36.7	34.5	21.1	7.5	72.3	54.8
Supervisor	3.2	0.0	3.6	65.0	32.4	35.2	2.3	84.8	64.8
Clerical	1.4	1.8	1.0	53.0	38.0	33.6	8.6	83.7	73.4
Self-employed artisan, merchant	2.3	1.6	2.3	45.7	26.9	27.3	6.4	79.9	64.8
Skilled worker	7.1	6.4	7.1	71.4	44.7	51.9	14.9	87.6	76.7
Unskilled worker	10.3	12.9	11.9	80.1	60.7	69.3	26.9	93.5	88.4
Peasant, agricultural worker	19.5	20.9	18.4	83.0	41.0	77.1	24.5	95.3	93.3
Old age pensioner	14.3	16.8	17.3	71.2	73.0	75.5	36.2	97.4	89.4
Disability pensioner	16.5	15.0	20.2	78.0	63.4	74.2	35.7	95.2	91.5
Pensioner on widow's allowance	22.9	25.2	29.8	83.1	85.8	85.0	51.5	100.0	96.6
Child care allowance and aid	11.9	13.0	15.2	75.4	48.5	54.3	23.1	92.6	89.9
Unemployed	15.8	15.5	19.7	77.8	65.5	66.5	32.6	91.2	81.7
In household	31.0	18.7	29.4	81.2	67.7	80.9	33.5	95.1	89.2
Other dependent	21.5	16.5	21.1	81.7	65.4	73.6	36.5	93.5	86.4
All 16 year-olds and above	11.5	11.1	12.9	68.4	55.9	59.1	25.0	90.0	80.4

Table 7 Per capita average annual income by place of residence, 1962-1995

Year	Per capita income as a percentage of the national average		
	Villages	Towns	Budapest
1962	90	108	131
1967	95	99	119
1972	95	97	118
1977	96	98	116
1982	96	99	112
1987	94	100	114
1992	89	95	129
1995	85	93	145

Table 8 Proportion of the poor in the population in the case of different poverty thresholds, 1992-1995

Year	Below the subsistence level	Below 50% of average per capita income Per cent	Below the minimum pension
1992	21.5	10.1	5.2
1993	24.0	10.4	5.4
1994	31.8	11.6	6.7
1995	30-35	12.4	-

Table 9 Proportion of the poor by age group, social stratum and ethnicity in the case of different poverty thresholds, 1994

Age group, social stratum, ethnicity	Below subsistence level	In the lowest income quintile	Below 50 % of the average	Below the minimum pension	N=
<i>Age group</i>					
0-2	54.5	38.1	22.8	15.0	144
3-6	41.8	29.2	11.7	6.8	312
7-14	42.3	31.4	16.4	9.5	642
15-19	41.5	29.9	15.9	10.5	447
20-29	34.5	18.8	9.5	4.7	794
30-39	36.4	24.7	13.4	8.1	796
40-49	31.3	18.4	9.3	4.4	778
50-59	28.3	13.8	11.3	7.5	668
60-69	16.1	7.6	7.4	3.7	711
70+	16.7	10.2	9.1	4.9	587
<i>Social stratum</i>					
Higher and medium manager	7.4	5.7	2.8	1.9	143
Professional	10.6	2.1	1.0	1.0	240
Supervisor	5.8	2.2	0.0	0.0	121
Clerical	19.6	8.1	4.2	3.2	382
Self-employed artisan, merchant	32.6	22.3	13.8	7.2	168
Skilled worker	24.8	11.6	4.0	1.0	529
Unskilled worker	34.6	19.4	7.1	2.3	527
Peasant, agricultural worker	39.5	26.0	11.7	3.6	116
Unemployed	55.5	37.6	26.6	17.9	226
Child care allowance	51.7	35.5	17.2	11.1	186
Old age pensioner	15.9	8.5	6.7	3.7	1165
Disability pensioner	48.7	24.8	13.8	6.5	263
Pensioner on widow's allowance	33.7	14.0	19.2	8.1	148
In household	56.4	44.6	31.8	22.8	103
Other dependant	53.7	37.5	28.2	16.9	207
<i>Ethnicity</i>					
Non-Roma	28.4	16.3	8.5	4.2	5743
Roma	86.7	73.0	56.1	43.3	277
Total population	31.8	20.0	11.6	6.7	5877

Table 10 Proportion of poor households by type of household, number of children, place of residence, the unemployment of the head of the household and ethnicity in the case of different poverty thresholds, 1994

Type of household, number of children, place of residence, unemployment of head of household, ethnicity	Below the subsistence level	In the lowest income quintile	Below 50% of the average	Below minimum pension	N=
Per cent					
<i>Type of household</i>					
One person	19.7	23.3	9.4	4.7	473
Married couple	12.0	9.6	6.0	3.8	438
Married couple with child(ren)	34.7	17.9	11.2	6.4	821
One parent with child(ren)	43.2	26.6	12.6	9.0	163
Three generations	43.9	22.5	10.3	6.4	66
Other	31.3	23.8	14.0	5.5	121
<i>Number of children</i>					
No children	18.3	6.8	8.5	4.7	1259
One child	37.2	17.4	10.3	6.2	347
Two children	37.0	21.6	8.4	4.6	329
Three and more children	62.5	53.2	29.5	17.6	124
<i>Place of residence</i>					
Budapest	11.9	7.2	2.8	1.3	358
County seat	25.7	16.2	6.5	4.3	299
Other town	30.5	18.9	12.4	7.6	620
Village	31.4	24.3	12.6	6.4	816
<i>The head of the household is</i>					
<i>unemployed</i>	63.5	39.7	27.6	19.1	103
<i>not unemployed</i>	25.1	17.5	9.1	4.9	1990
<i>Ethnicity</i>					
Roma	82.5	67.0	49.4	39.1	65
Non-Roma	24.6	15.8	7.5	3.5	1959
All households	27.1	18.6	12.6	6.4	2093

Table 11 **Proportion of the poor by age group, school education, place of residence, social stratum and ethnicity in the case of different poverty thresholds, 1995**

Age group, school education, place of residence, social stratum, ethnicity	In the lowest quintile	Below 60 % of the average	Below 50% of the average	N=
<i>Age group</i>				
0-2 years	32.9	34.7	20.6	131
3-6	26.9	29.9	16.6	279
6-14	25.9	27.5	17.6	613
15-19	24.6	27.0	16.3	465
20-29	19.0	21.7	11.9	732
30-39	17.7	19.8	10.4	751
40-49	19.3	21.2	13.1	866
50-59	14.1	17.4	9.3	632
60-69	12.7	16.3	6.0	620
70 and over	23.7	28.2	12.6	503
<i>School education</i>				
0-7 grades	36.4	41.2	23.6	604
8 grades	23.6	27.9	15.5	1251
Trade school	18.4	21.1	11.1	1092
Secondary school	9.4	11.2	4.0	1023
University, college	1.6	1.7	0.8	513
<i>Place of residence</i>				
Village	25.5	28.9	17.4	2166
Town	22.2	24.2	11.8	1655
County seat, city	17.0	21.4	9.3	721
Budapest	7.2	8.3	5.3	1049
<i>Social stratum</i>				
Higher and medium manager	0.0	0.9	0.0	158
Professional	0.7	0.7	0.7	250
Supervisor	7.6	7.6	-	120
Clerical	7.0	8.3	2.4	322
Self-employed artisan, merchant	12.3	13.1	5.4	162
Skilled worker	12.1	14.3	4.2	492
Unskilled worker	14.8	18.8	10.5	464
Peasant, agricultural worker	16.7	18.2	9.1	86
Pensioner, working	4.6	6.4	2.8	87
Old age pensioner	11.9	16.2	5.1	1045
Disability pensioner	30.6	36.0	18.7	290
Pensioner on widow's allowance	48.6	53.1	31.5	153
Child care allowance and aid	29.7	32.1	18.5	167
Unemployed	44.2	46.3	31.8	188
In household	54.7	56.8	48.1	95
Other dependent	48.0	51.2	39.2	190
Student (above 16 years)	19.7	22.3	11.7	356
<i>Ethnic group</i>				
Roma	66.5	74.5	55.8	214
Non-Roma	17.8	20.1	10.4	5296
<i>Altogether, total population</i>	20.0	22.7	12.4	5592

Table 12 The proportion of poor households by the age of the householder, by type of household, membership and by the number of children in the case of different poverty thresholds, 1995

Age of householder, type of household, membership and number of children	In the lowest quintile	Below 60% of the average	Below 50% of the average	N=
<i>Age of householder</i>				
-29	23.7	26.2	12.1	185
30-39	16.3	18.9	10.4	355
40-49	21.1	22.6	14.6	502
50-59	16.2	20.6	12.0	363
60-69	16.9	20.7	8.1	401
70 and over	27.2	32.7	13.8	348
<i>Type of household</i>				
One person	27.0	33.1	14.8	563
One parent with child(ren)	24.9	26.3	18.7	190
Childless married couple	11.3	14.0	5.6	436
Married couple with child	18.8	21.2	11.6	814
Three generations	15.2	16.7	9.6	54
Other household	20.3	22.1	14.1	98
<i>Membership of household</i>				
1	27.0	33.1	14.8	563
2	13.0	15.9	7.6	601
3	20.0	20.9	13.8	417
4	15.8	18.5	8.3	384
5	28.0	31.7	17.7	126
6 and more	31.5	32.7	24.6	63
<i>Number of children living in the household</i>				
0	17.6	21.7	9.8	1342
1	23.4	26.1	15.6	381
2	17.9	19.5	10.8	323
3	33.5	35.6	22.0	83
4 and more	69.8	69.8	49.2	26
All households together	19.9	23.2	11.9	2154

Table 13 Changes of the position of individuals in deciles from 1993 to 1994, distribution of the 1993 deciles by the 1994 situation

Decile in 1993	Decile in 1994										Total	N=
	Lowest	2	3	4	5	6	7	8	9	Topmost		
Lowest	57.2	21.1	15.1	2.9	1.3	0.6	2.8	1.3	0.5	1.8	100.0	479
2	12.4	37.1	23.2	11.1	6.1	3.5	0.9	1.8	2.8	1.0	100.0	521
3	9.0	17.2	23.7	19.2	10.5	9.9	2.5	4.3	1.3	2.4	100.0	572
4	4.5	9.3	10.9	23.9	25.2	8.4	7.7	5.1	4.3	0.8	100.0	537
5	4.2	5.8	6.2	15.4	23.4	18.1	17.6	4.7	4.0	0.7	100.0	551
6	7.0	4.1	5.4	10.0	9.9	21.4	17.8	16.5	4.0	4.0	100.0	545
7	1.9	3.2	6.1	8.6	10.3	21.8	17.1	1.9	10.1	4.0	100.0	568
8	2.8	3.6	3.1	4.7	5.2	8.9	17.4	23.8	19.2	11.2	100.0	549
9	2.9	0.7	1.2	2.9	4.7	5.0	13.8	17.9	32.3	18.6	100.0	531
Topmost	0.9	2.4	2.0	0.0	1.6	1.8	3.4	8.8	24.7	54.4	100.0	544
Total	9.3	10.2	9.6	10.0	9.9	10.1	10.2	10.3	10.4	9.9	100.0	5397

Table 14 Change of individuals' position in deciles from 1993 to 1994, distribution of the 1994 deciles by the 1993 situation

Decile	Decile										Total
	Lowest	2	3	4	5	6	7	8	9	Topmost	
Lowest	59.4	18.3	13.9	2.6	1.1	0.5	2.4	1.1	0.5	1.6	8.9
2	13.0	35.0	23.2	10.7	5.9	3.3	0.9	1.7	2.6	0.9	9.7
3	10.3	17.9	26.1	20.3	11.2	10.3	2.6	4.4	1.3	2.6	10.6
4	4.8	9.0	11.3	23.8	25.2	8.2	7.5	4.9	4.2	0.8	10.0
5	4.6	5.8	6.6	15.7	24.0	18.2	17.6	4.7	3.9	0.7	10.2
6	7.6	4.0	5.6	10.1	10.1	21.3	17.5	16.2	3.9	4.1	10.1
7	2.2	3.3	6.7	9.1	10.9	22.6	17.6	17.3	10.2	4.2	10.5
8	3.1	3.6	3.3	4.8	5.3	8.9	17.8	23.7	18.8	11.5	10.2
9	3.1	0.7	1.2	2.9	4.6	4.8	13.3	17.2	30.6	18.5	9.8
Topmost	0.9	2.4	2.1	-	1.6	1.8	3.3	8.7	24.0	55.2	10.1
Total	100.0	100.0	100.0	100.0	100.0	100.0	100.0	100.0	100.0	100.0	100.0
N=	500	553	520	540	536	548	554	552	560	535	5397

Table 15 Change of individuals' position in quintiles between 1992 and 1995

Quintile in 1992	Quintile in 1995					Total	N
	1	2	3	4	5		
Lower quintile	57.8	24.6	8.4	5.2	3.9	100.0	869
2	18.4	40.3	24.6	9.3	7.3	100.0	868
3	11.1	17.2	31.6	27.4	12.7	100.0	870
4	9.0	12.6	20.5	37.7	20.1	100.0	866
Upper quintile	3.6	5.4	14.6	20.5	55.9	100.0	869
Total	100.0	100.0	100.0	100.0	100.0	-	4342

Table 16 The frequency of individuals' poverty in the case of different poverty thresholds from 1992 to 1994

Frequency of poverty	Below subsistence level	In the lowest income quintile	Below 50% of the average	Below the minimum pension
Never poor	58.0	66.6	81.6	89.3
Poor in one year	19.5	16.7	11.7	7.7
Poor in two years	12.4	9.6	3.7	2.4
Poor in all three years	10.2	7.1	3.1	0.6
Altogether	100.0	100.0	100.0	100.0

Table 17 Proportion of lasting and transitory poverty in the case of the lowest quintile as poverty threshold by age group, social stratum and ethnicity, 1992-1994

Age group, social stratum, ethnicity	Used to belong to the lowest quintile from 1992 to 1994					N=
	In 3 years	In 2 years	In 1 year	Never	Altogeth er	
<i>Age group</i>						
0-2	17.2	20.4	11.5	51.0	100.0	144
3-6	12.7	15.2	25.0	47.1	100.0	312
7-14	13.0	15.1	16.5	55.5	100.0	642
15-19	11.8	12.5	19.9	55.8	100.0	447
20-29	7.6	10.7	19.2	62.5	100.0	794
30-39	8.1	10.6	18.5	62.9	100.0	796
40-49	6.2	9.6	16.2	68.0	100.0	778
50-59	4.6	6.8	11.1	77.4	100.0	668
60-69	2.0	3.7	12.2	82.1	100.0	711
70 +	2.2	5.7	17.8	74.3	100.0	587
<i>Social stratum</i>						
Higher and medium manager	2.0	2.1	6.1	89.8	100.0	143
Professional	0.0	0.0	9.3	90.7	100.0	240
Supervisor	0.0	1.1	12.9	86.0	100.0	121
Clerical	1.3	3.7	15.3	79.8	100.3	382
Self-employed	6.3	7.1	26.7	59.9	100.0	168
Skilled worker	2.8	6.6	15.7	74.9	100.0	529
Unskilled worker	4.5	11.1	20.8	63.6	100.0	527
Peasant, agricultural worker	5.5	21.0	16.7	56.7	100.0	116
Unemployed	18.6	14.8	19.7	46.9	100.0	226
Child care allowance	12.5	18.5	23.2	45.8	100.0	186
Old age pensioner	1.5	3.4	13.1	82.0	100.0	1165
Disability pensioner	11.4	16.4	14.9	57.4	100.0	261
Pensioner on widow's allowance	5.3	9.2	25.4	60.1	100.0	148
In household	21.9	19.8	18.4	39.9	100.0	103
Other dependent	16.4	22.3	14.2	47.1	100.0	207
<i>Ethnicity</i>						
Non-Roma	4.2	7.2	16.7	71.9	100.0	5473
Roma	48.3	25.3	6.8	19.6	100.0	277
Total population	7.1	9.6	16.7	66.6	100.0	5879

Table 18 **Proportion of the dissatisfied by income quintiles, 1993**

Respondent's satisfaction with	Proportion of the dissatisfied, percentage				
	1 Lowest	2	3	4	5 Topmost
	Quintile				
One's life up to now	37.0	24.1	20.0	15.0	10.2
Living standards	54.3	39.9	36.7	31.3	23.2
Income	68.7	54.1	50.1	45.9	29.9
Future perspectives	55.0	45.0	42.4	36.4	28.8
Work	9.6	6.3	9.6	5.4	5.6
Home	22.1	9.9	10.6	6.5	8.0
Environment of home	18.2	12.5	12.9	11.3	14.2
Family	6.1	4.4	2.7	2.2	4.3
One's health status	28.1	28.5	26.2	18.9	14.1
Relatives and friends	6.1	5.6	3.7	3.6	2.3
Colleagues	4.5	3.4	5.9	4.5	2.3
Public safety	29.4	27.2	27.7	26.4	34.3
Condition of natural environment	27.5	26.8	28.2	25.6	39.2
Economic situation of the country	77.0	71.0	74.3	74.0	73.8
Citizens' possibilities for a say in political decisions	50.5	45.1	47.8	41.1	42.2

Table 19 **Somatic and psychological manifestations of the state of mind among people aged 16 and above who belong to the lowest and topmost quintiles, 1993**

State of mind	Of the lowest Of the topmost	
	quintile the occurrence of the symptom referred to was mentioned, percentage	
Often exhausted, in low spirits	67.6	53.6
Often has palpitations	37.3	26.0
Constantly agitated, nervous	38.6	21.5
Often has strong headache	36.2	22.7
Often trembles	26.1	12.6
Mostly feels unlucky	73.5	37.8
Worries a lot about condition of health	44.7	30.4
Gets mixed up if several things have to be done in a short time	38.6	19.4
Cannot get rid of fears and anxiety	27.6	13.4

Table 20 Manifestations of anomie and alienation among persons of 16 and older, belonging to the lowest and topmost quintiles, 1993

Anomie and alienation	Proportion of those who said the statement put to them was entirely true, percentage	
	Of those belonging to the lowest	Of those belonging to the topmost
	quintiles	
Anyone who wants to achieve something is forced to violate certain rules	41.7	39.3
Nowadays I can hardly find my way in the issues of life	32.8	15.9
I can hardly influence my own fate	28.4	9.9
I often feel lonely	12.7	9.1

THE NETWORK APPROACH: A NEW PARADIGM?*

When you have only the quantitative criteria in mind, you may tend to give a positive answer to the question in the title. Even a cursory glance at the international literature reveals that over the past two decades, social network analysis has grown into one of sociology's most dynamically developing and partly already institutionalised approaches. Indications of this include the several thousand publications, the growing number of authors specialising in the field and organised separately. Other indices of institutionalisation include the large number of conferences and symposiums held on the theme, the increasing number of methodological manuals, the university courses on the approach and last but not least, the appearance of journals such as *Social Networks* and *Connections*.

The extensiveness of the areas addressed by the approach is also a sign of its take-off. Without any attempt at reviewing all the areas covered by network analysis, let us mention a few examples to illustrate the diversity of its application: internal integration of settlements, neighbourhood and kinship relations, network of the relations of various institutions including the market and public opinion, the centre-periphery relations of the global economy, structural positions of power elites, the intertwining of economic and political organisations, parties and their coalitions, and even such traditional concerns of sociology as stratification and mobility. However, the institutionalisation of the social network approach does not necessarily mean the emergence of a unified paradigm in the strict sense of the word. Not only the themes but also the levels of examination vary widely. The actors of networks are not only individuals but also groups, organisations, even nations, even if the methodological apparatus provides a relatively unified framework for research.

The theoretical foundations are also diverse; the manuals list dozens of sources. The most immediate precedent is the sociometric school hallmarked by the name of Moreno. Various indices of network analysis and the different forms of graphic representation were introduced into the approach and further improved mainly by scholars coming from the field of sociometry. Today, this school puts its stamp principally on micro-network applications. Network analysis also received substantial impulses from communications research. Models to be mentioned here include the 'two-step' flow of communication (Lazarsfeld, Katz), the differentiation of 'local' and 'cosmopolitan' group roles attached to different communicational

* The article is based on a paper read at a section on "New roads in economic, business and social science training" of the jubilee conference of the Budapest University of Economic Sciences (28-30 September 1995) held under the title "New paradigms in sociology and economic psychology". The overview of the social network approach is based at several points on the collection of studies *Hidden network of societies* edited by Róbert Angelusz and the present author (Angelusz-Tardos 1991b).

groups (Merton) or the research field of the diffusion of novelties (E. Rogers). Besides the roots mentioned in Moreno's work, social psychology contributed the theories of cognitive balance (Heider, Festinger) especially to the network researchers focusing on dyadic and triadic formations. Social and structural anthropology stimulated the description of formal organisations such as the system of kinship relations or the elementary forms of exchange relations. The work of Radcliffe-Brown, Nadel and Levi-Strauss stands out in this regard. As for sociological precedents in the stricter sense, the first to emphasise is the formal sociology of the early 20th century. Simmel's and von Wiese's research provided starting points for network analysts undertaking the classification and theoretical systematisation of group formations. Last but not least, the role of the mathematical graph and matrix theories is growing in the analytic arsenal of the approach. The specific terminology emerging as a result also differentiates the network literature from other trends even in its language.

What promises, what theoretical-methodological perspectives can have attracted so many social scientists to the trend? One of the most obvious advantages of the network approach was that it offered something more than the 'individual-centric, atomistic' outlook of the traditional survey method of empirical data collection. The latter is justly accused of removing the subjects from their social context and reducing their determinations to direct individual attributes. By contrast, the network approach, by taking into account the micro-milieu and the macro-context as well, besides the individual traits, offers the possibility of multi-level analysis. (This holds true despite the fact that, as in a considerable part of the cases, the network analyses arrive at social network characteristics after starting out from individual, 'ego-centred' data.) The approach may help bridge the gap which often rigidly separated micro- and macrosociological analyses. By handling the techniques flexibly, the implications grasped at one of the levels can be located in the frame of reference of the other level.

It needs emphasising that while this possibility exists, it certainly cannot be said that micro- and macro-analysis is typically combined in the whole of the network research. Possibly the highest number of papers in the literature are those that try to tackle the network relations of an (ego-centred) small community or individual without taking a look at their broader social embeddedness. While such delimitations may appear fully justified for the examination of certain partial problems (e.g. those belonging to social psychology), the sociological perspectives of network analysis can only unfold from the combination of investigations at various levels. I have in mind the sort of complex treatment placed in deep relief by, for example Coleman's monumental summary (1990) (its consistent application also helped supersede the methodological individualism otherwise so typical of the theory of rational choice). Today, numerous fine examples can be cited of the strategic exploitation of the interplay of levels. Most of them belong to researches operationalising the major theoretical problems at intermediate level and testing their models empirically as well. In such central problems of sociology as, for example, social structure, stratification and mobility Burt (1982), Breiger (1982), Nan Lin (1990) and Pappi (1981) start out from micro-level network data in their efforts to define larger social formations (blocs, structural boundaries, classes).

Another, relatively rarer application of multi-tier analysis is the combination of network analysis and the contextual approach (in the narrow sense) when various typical traits of networks are conceived as contextual variables influencing behaviour and mentality. (This 'network as context'-based research method was adopted by Róbert Angelusz and the author in the late 80s, early 90s in a joint research, see Angelusz-Tardos 1991a.)

Structure as a focal concept

Above, the notion of structure has been repeatedly mentioned. One of the significant, if not the most vigorous, currents of the network approach uses it as its central category, to such an extent that many of its exponents use 'structure' and not 'network' as the identifying label (e.g. Wellman 1991). At the opening session of the jubilee conference of Budapest University of Economic Sciences, Rudolf Andorka discussed with emphasis the changing views on structure in today's sociology. One of the main points of his overview of the history of theories highlighted the gradual change starting in the seventies - mainly in the wake of the work of Giddens and Bourdieu - from the earlier, strongly deterministic concept of structure, the mainstream of sociology for decades - to an approach which ascribed a far greater role to individual action in changing, or even creating structures. The network approach treads a unique path in trying to solve the structure/action, part/whole problems differently from both the former and the latter traditions. Although no unified theoretical background can be found in this regard either, some distinguishing traits are taking shape, at least in the standard works. Unlike several influential figures of present-day sociology affiliated mainly with various ramifications of symbolic interactionism, the network approach places less emphasis on individual action in creating structures but stresses the structural embeddedness of action. This, however, does not mean a one-sided deterministic attitude. Network analyses do not question the scope of action, though their starting point is the inner tensions, incongruences of structures and not individual intentions. Viewed from this angle, structure is not a ready-made, immediately conceivable given, but a latent organisation to be deciphered from the web of relations and transactions. In actual fact, not a single structure but a set of structures, blocs built up by various criteria and overlapping to varying degrees are at issue. Some *Leitmotivs* in the conceptual apparatus of one of the current leading theoreticians, Ronald Burt are also centred around the space of action. For example, "structural autonomy" (Burt 1982), which can be derived from the varying degrees of concentration on the input and output sides of market transactions, directly relates to the different profit chances of the market actors. The more recent notion of the "structural hole" (Burt 1992) is based on the interruptions and vacuums in networks and blocs, when the brokers who fill these gaps, the "entrepreneurs" in the Schumpeterian sense who reshuffle the positions (e.g. in economic organisations) gain substantial advantages in mobility.

A further methodological advantage of the network approach is its ability to grasp empirically the structural compulsions embodied in group formation and

those individual actions as a result of which these structural compulsions are constantly modified. Network analyses point out emphatically that such market formations as the oligopolies present a fundamental structural constraint for all market participants but at the same time shed light on processes by which the powerfully influential actors of the market may transform the existing market structures via actions within their networks of relations (e.g. mutual board memberships, manifest or latent co-ordination through various power circles).

Another aspect of the above is the superseding of the antinomy of the static and dynamic approaches. Although the network analyses aiming at describing structural forms imply a static tendency, the subject itself carries dynamism: the potential of restructuring is more obviously inherent in network formations than in more petrified institutional forms. Of course, the most direct exploration of the development and transformation of network relations could best be done by longitudinal analyses, but the most typically available cross-section investigations may also throw light on the nodes of tension, gaps within the network, 'irregular' relations which are predictive signs of changes within the group or intergroup relations. The systematic examination of weak bonds besides the strong bonds may also reveal intergroup relations and mobilities reaching beyond the dense texture of intimate networks and embodying the element of dynamism (Granovetter's theory of "the strength of weak ties" lays special emphasis on the instrumental value and dynamic potential of certain types of network positions, see Granovetter 1974).

Main approaches to social behaviour

There are two main approaches to the description of social behaviour: one depends on the similarity of structural situations, the other on the immediate interactions, the closeness of contact. Though not eliminating the differences, network approach integrates both trends into its own complex of problems and in theory, the two kinds of approaches can be applied in combination. For example, an empirical examination can be made of whose behaviours are more closely similar to each other: those who are positionally similar (not in immediate interaction with each other, spatially separated but in the micro- or macronetworks occupying identical positions) or those who are in communicative relationship (but in fundamentally different positions). Burt carried out the conscious differentiation of the two approaches and the categorisation of the related analytic and research techniques by confronting the relational and positional approaches at the levels of the individual, the group and the structured system. The procedures based both on structural equivalence and the principle of cohesion can be fruitful in their clear cross-reference.

That said, one may rightly raise the question of what place network analysis occupies in the field of such concurrent theoretical paradigms as functionalism, conflict theory and symbolic interactionism. The above has suggested that the flexibility inherent in network analysis, the concentration on the latent organisations instead of manifest institutional and group formations result in a surplus as compared to the often rigid approach of functionalism toward institutions

and groups, and to the image of society presented by conflict theory by too sharply contrasting different parties as to position and interests. The actual network formations plotted by empirical researches disprove the degree of sharp delineation implied by rigid theoretical presuppositions as to institution, class or group. At the same time, the two main branches of network analysis, positional and relational, differ in their affinities with major theoretical schools. The relational approach relying on the concept of cohesion leans towards symbolic interactionism, while positional analyses are more closely related with interest-centred conflict theory. On the whole, however, network analysis intersects the traditional theoretical stances rather than identifies with one or the other.

In view of all this, the question must be asked again: is the network approach a coherent theoretical trend, similarly to those discussed above? Taking into account the normative requirements of a theory, for the time being initiatives, individual building blocks are at hand rather than a unified edifice. The revival of the outlook or approach is closer to the point than the creation of a new theoretical system - and that may constitute a new paradigm. And, of course, the methodology and specific techniques also differentiate the social network trend from other approaches to social science. The critical reviews warning of the danger of a sort of methodological formalism and arbitrariness implied by the sophistication of the technical apparatus are not altogether unfounded. Still in the critical tone, a sort of trap is implied by the fact that the boundaries of networks can rarely be tangibly conceived. The flexibility of the approach may easily slip into vagueness.

Some issues of content

There is a major dividing line in content between researchers interested in the form or formations of the network when approaching fields of contact or structural formations, and scholars going beyond the realm of networks, at times using the network positions as independent variables, who focus on such crucial issues of sociology as social stratification, centre-periphery relations, social integration, or various pressing social problems. Although the former approach is in general perfectly justified, the danger of self-contained formalism must however be avoided. I, for one, am drawn to the latter research approach, and the references made in this paper mostly belong to this current.

Since the social network approach is no longer so young, having a past of nearly two decades, it is not out of place to ask: to what extent have the actual works fulfilled the promise and exploited the possibilities implied by the approach. Undoubtedly, there are numerous programmes unrealised, fundamental works unwritten, initiatives broken off. One may have the impression that after the take-off of the first decade when the practitioners of the approach joined forces to promote the institutionalisation of the discipline, the zeal has slackened.

In my view, research interest has survived but the emphasis has shifted from the peculiarities of the methodology to more substantive problems within each discipline of sociology. In numerical terms alone, papers using the approach at issue published in the leading journals of the profession (e.g. *American Journal of*

Sociology, American Sociological Review) have increased recently. Although for some time there was a lack of comprehensive standard works and synthesising monographs, positive developments can be observed in this regard, too. Burt's *Structural Holes*, published in 1992, the summary of research work for a decade was rightly called by Robert Merton the masterpiece of structural analysis, a path-setter both in theory, methodology and empirical research. That was also when one of the most creative personalities of the trend, and perhaps of present-day sociology in general, Harrison White published his volume. His *Identity and Control*, subtitled *A structural theory of social action* (White 1992) may seem to formulate the questions and hypotheses for the sociology of the 21st century. Undoubtedly, the even more esoteric style than usual may hinder the reception of the author's ideas, but since most initiatives of the trend can be traced back to this workshop, White's new work covering nearly the entire territory of sociology will certainly fertilise research for the next years and decades.

The influence of the network paradigm on sociology

The vitality of the network paradigm is also indicated by its strong influence on other disciplines of sociology. First and foremost, 'new economic sociology' must be mentioned. Its number one source, as Swedberg states in his recent overview (Swedberg 1995), was the social network approach. The genesis of 'new economic sociology' is itself linked with the programmatic article of network theorist Granovetter (Granovetter 1995). Burt and White, mentioned above, also regard several of their analyses of market structures or the research on interpenetration based on overlapping of directorial boards as integral parts of 'new economic sociology'. Besides economic sociology, important impulses were received by the sociologies of organisation, politics and history from network, structural and contextual analyses.

The network paradigm in Hungary

Let us briefly review the influence of the current in Hungary. Though far from being one of the most influential paradigms, network analyses have emerged in Hungarian sociology as well. One important field of application is the research of family, kinship and sponsorship relations; research findings, many of them from this approach, are summed up in a volume of studies published in the early 90s (Utasi 1991, see also Somlai 1992). In the works of Ágnes Czakó and Endre Sik, the network approach assumed an important role in the analysis of informal transactions of economic organisations and labour exchange relations based on reciprocity (Czakó-Sik 1987; Sik 1988). In this research line the concept of network capital has also been used (the self-organising network forms of the labour market are a major research field of Gyekiczky 1994). Several authors have introduced the network resources conceived in various ways as economic input factors. József Böröcz and his American co-author undertook the secondary analysis of research in

Hungary from this angle; their findings confirmed the role of the network factors in economic prosperity and the achieved income level from another direction (Böröcz-Southworth 1995). György Lengyel and István János Tóth demonstrated similar correlations in the field of entrepreneurial recruitment (Lengyel-Tóth 1993). Zoltán Szántó made an attempt to pursue theoretically the implications of network analysis for the research of stratification and structure (Szántó 1991). At the end of this incomplete overview, let me mention the researches conducted by Róbert Angelusz and the present author. One of the pillars of our cultural-interactional stratification research was the network (and contextual) approach (see Angelusz-Tardos 1991a). Our two readers selected from the international literature of network analysis were aimed at promoting the reception of the trend in Hungary (*Szociológiai Figyelő* 1988/2 and Angelusz-Tardos 1991b).

This very brief overview may also have revealed some focal points in Hungarian research, together with areas receiving less attention. The exponents of the approach seem to have devoted the profoundest attention to the individual approach to network resources in the investigation of the ways status positions are reached. So far little attention has been given to the exploration of structural relations and latent organisations between agencies and institutions. And while research into the overlappings and interpenetrations via multiple memberships is almost a commonplace in British and American social science research (at least in Swedberg's judgement), it is - not the only - white spot in Hungary. The slowly crystallising new socio-economic relations do offer remarkable nodes of problems for the expanding circle of the Hungarian practitioners of network analysis.

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PRIVATISATION AND THE LAUGHING THIRD¹

Introduction

A central measure of the success of the change of economic system seems to be the transformation of the structure of ownership. State ownership can be dismantled (can disintegrate) and various forms of private ownership can be created (can emerge) in a variety of ways: from spontaneous privatisation through diverse forms of Management Buy-Out (MBO) and Employees' Part Ownership (EPO) to ownership by outside investors (professional and financial, domestic or foreign investors). In this investigation, our aim - among others - was the exploration of a usually hidden aspect of such processes of privatisation: the strategic interactions among the actors of privatisation. One of our aims was then to present, categorise and empirically illustrate the interactions (efforts to acquire annuity or influence, to protect or gain status, to create coalitions, bargaining processes, position fights) which may explain, at least in part, the outcome, success or failure, of various attempts at privatisation. To put it another way, our goal was to clarify the preconditions of privatisation processes in terms of interpersonal relations.

In this paper, the emphasis is laid on the importance of three-actor relations ('triads') among the preconditions studied.² The fundamental objective is to outline the role of typical three-actor relations in the preparation and realisation of privatisation, and summarise some experiences of the investigation allowing for generalisation. These, in fortunate cases, may pave the way for further examinations and hypotheses. At first, as the point of theoretical-conceptual departure, we sum up the classic view of the triad as expounded by Georg Simmel and Theodore Caplow.³ Based chiefly on a case study of the research (Fogarassy 1995), we then present various types of triadic interactions which fundamentally influenced the procedure and outcome of privatisation at the firm studied. The argumentation is closed with a brief summary.

Simmel and Caplow on the triad

The roots of the theory of three-party interactions reach back to the work of Georg Simmel (Simmel 1950: 118-169). In Simmel's definition, the job of the sociologist is to create the 'geometry' of society, to systematically analyse the social interactions. In his view, the subject-matter of sociological investigation does not include individual phenomena, but the interrelations of conflict and co-operation, sub- and superordination, centralism and decentralism. Simmel clearly regarded the examination of the formal aspect of social life as of central importance, which is also confirmed by the fact that the programme of sociology he proclaimed is still

called formal sociology. This approach - belonging to the field of formal microsociology - is also reflected in the analysis of triadic relations.

Simmel describes the triad in comparison with the isolated individual and the dyad. The simplest social formation can arise involving two actors. Its essential feature is intimacy, its sociological significance being chiefly its extensibility. The most important dyadic relationship, in Simmel's view, is monogamous marriage in which the birth of a child, the appearance of the third party, may strengthen the relationship. The sociological significance of the third actor is that it may either reinforce or undermine the original dyadic relationship. The third may join the already established relationship between two persons (or groups): in a conflict as an arbiter, or as a counterweight to the contradictory claims of the other two parties. It may even capitalise on the strife between the dyadic parties. In this case, it is in the position of the laughing third - *tertius gaudens* - meaning that a third party takes advantage of the existing or emerging fight ('strife') between two actors (individuals, groups, parties, etc.).⁴ The buyer, for example, is in this situation in an economy in which the producers are truly competitive.⁵ The buyer, as the laughing third, enjoys the advantages that derive from the rivalry of the two economic actors, e.g. reduced prices, improved quality. From this situation Simmel distinctly differentiated the one in which the third intentionally kindles antagonism, rivalry or conflict between the two actors. That situation implies the relations of divide and rule - *divide et impera*. Typical examples of this can be cited mainly from politics in which one actor intentionally arouses (or enhances) the political, religious, ethnic, etc. conflicts between two or more groups, chiefly in the interest of reinforcing or improving its own power position.

Simmel's arguments had a fermenting influence on subsequent research, including on modern coalition theory. The formation of a coalition satisfying the definition of Caplow's coalition theory (Caplow 1956; 1959; see also Csontos 1985: 118-127) largely depends on the initial distribution of power among the potential members of the coalition. The analysis highlights the possible variations of the relationship among three actors having different power.⁶ The theory rests on the following postulates:

A-1: the elements of the triad (the potential members of the coalition) differ as to the extent of power they have. The stronger actors may impose their will on the weaker ones.

A-2: all members of the triad make efforts to impose their will on the most possible partners in the game.

A-3: the power of the actors is additive, i.e. the strength of the coalition equals the sum total of the strength of its constituent members.

A-4: the coalition comes about in an existing three-actor situation. When the more powerful player tries to force the weaker into a coalition that is disadvantageous for the latter, then the weaker party will try to create a coalition that is advantageous for him, so as to offset the compulsion.

Starting out from these theorems, Caplow differentiated eight basic types of the triadic coalition situations. These eight types may occur in three different situations (Caplow 1959: 489-490).

1. In continuous situations, coalitions aim to control the collective activity of the triad and to gain goods which derive from the situation itself.

2. In occasional situations, the aim of a coalition of stable composition is to solve occasional but recurrent problems of power division.

3. In life-and-death situations, the aim of the coalition is the final solution of the single problem of power division, even at the cost of the "annihilation" of one another.

Based on the above, Caplow formulated the following hypotheses concerning the outcome of situations in which triadic coalitions are to be formed:

Type	Features	Which coalition will emerge?		
		Continuous	Occasional	Life-and-death
1.	$A=B=C$	any	any	any
2.	$A>B, B=C, A<(B+C)$	BC	any	any
3.	$A<B, B=C$	AB or AC	any	BC
4.	$A>(B+C), B=C$	none	none	none
5.	$A>B>C, A<(B+C)$	BC or AC	any	none
6.	$A>B>C, A>(B+C)$	none	none	none
7.	$A>B>C, A=(B+C)$	AB or AC	AB or AC	BC
8.	$A=(B+C), B=C$	AB or AC	AB or AC	BC

In the table, the potential members are designated A, B and C. The relations of magnitude as the characteristic of the coalition apply to the initial division of power in the coalition.

Privatisation and the triad

To illustrate the strategic interactions to be presented in a model, we used the example of the privatisation of the large enterprise ABC^{7, 8}. The last general director of the company was appointed in 1985. The top management of the enterprise comprised four persons in 1985: General Director I.G., Financial Director Mrs.F.K., Technical Director M.I., and Commercial Director K.I. In 1985, there was no trace of any conflict among the top leaders. Soon, however, it turned out that there were points of contention among them.

Conflicts among the top leaders prior to privatisation: divide and rule!

The disintegration of the team began with the departure of M.I. "He didn't get on so well with the number one boss," K.I. said in the interview. M.I. received a favourable offer from a partner of the enterprise and as I.G. did not insist on his staying, he left. His leave made K.I. realise that no one was irreplaceable, and on the other hand, that the team was no longer the same. K.I. retraces the roots of the acrimonious conflicts among the leaders during the privatisation processes to this point.

The management of the firm thus comprised three persons before privatisation (I.G., Mrs.F.K., and K.I.). The relations between the three leaders had been deteriorating for years. Serious differences of opinion arose between I.G. and K.I. on professional issues. In K.I.'s view, the firm ought to have concentrated on the production of the best item, even at the cost of reduced output or staff cutback. The professional conflict was further deepened by the personality differences of the two leaders: K.I. is a venturesome, inventive, outspoken, autonomous person, while I.G. is a 'sly fox' who enjoys the security of a large organisation and is more of the employee type. Both had spent a long time with the firm, climbing the ladder of promotion. They had accumulated a great amount of firm-specific knowledge. They are the 'captives' of the organisation in a peculiar sense of the word: their enterprise-specific knowledge, their positions with the firm and the ensuing annuity-like income all tie them to the firm.⁹ Both are well acquainted with the firm and the employees, the majority of whom usually took K.I.'s side in disputes. So I.G. had to "keep his wits about him" to be able to preserve his prestige and influence in the firm. He had two tools to this end: dividing the leadership, which ensured that his colleagues (the other two top leaders, plus at times some groups of middle managers) would not join forces against him; and the retention of information, which made it hard to oppose him. I.G. resorted to both tools: conflicts became more and more aggravated in the leadership and by the time of the privatisation, nearly all middle managers and employees had committed themselves to one or the other top leader. The majority, as was mentioned, supported K.I. To monopolise information, I.G. more and more frequently conducted the talks about the future of the firm alone. During the privatisation process, he did not involve either of his colleagues. "The State Privatisation Agency (ÁVÜ) put me in charge of this job, made me responsible for ensuring that every candidate has identical information in the interest of fair competition," I.G. explained his strategy. This gave him information monopoly within the firm and enabled him to pick the future owner, in return for which, he could even hope for some compensation (e.g. retaining his position).¹⁰

The role of the third leader, Mrs.F.K., is important because it is most probably her decision in the position fight between the other two parties that would tilt the scales in one direction. Mrs.F.K. is a reserved person, governed powerfully by her emotions and passions. She is an outstanding specialist but not an autonomous person. She likes to work under stable guidance. Besides, her authority and influence within the organisation are far smaller than those of the commercial director or the general director.

Prior to the privatisation, thus the typical triadic interaction was a 'divide and rule' game involving K.I. with the majority of middle managers and employees behind him, I.G. who was perceiving the rapid decline of his influence within the organisation, and the temporarily neutral Mrs.F.K. who had little authority within the unit. Having realised that he could not rival the authority and influence of K.I. in the company, the top leader of the company tried to deliberately aggravate the conflicts and block the potential K.I.- Mrs.F.K. coalition, hoping to improve his position thereby.

Comparing this with Caplow's situations, the closest analogy can be found with type 5, with the reservation that this situation is closer to the continuous case. In regard to influence in the firm, the unquestionable order is K.I., I.G., Mrs.F.K. It can be justly assumed, however, that K.I. did not have enough 'authority' to put through his ideas alone¹¹. First of all, because he was not the top leader. Second, because K.I.'s former propositions - apart from the establishment of the foreign trade company, which served the interests of the firm at least as much as the financial gain of the sales personnel - could be foiled by I.G. That said, the K.I.-Mrs.F.K. or the I.G.-Mrs.F.K. coalitions were the most probable, according to Caplow's hypotheses. K.I. and I.G. both sought the favour of the third party, who tried to improve her own relative position in league with I.G. or to maximise the power of the coalition by ganging up with K.I. - with equal chances for the two options, as Caplow asserts. There are, however, two more arguments that support the better chances of the I.G.-Mrs.F.K. coalition (Csontos 1985: 123): 1. that is the cheapest winning coalition, 2. the third party knows that compared to the strongest member, her own bargaining power is smaller than compared to the medium-strong member. It follows from this that there is a greater chance for the I.G.-Mrs.F.K. alliance to develop.

Conflicts among the top managers during privatisation: the laughing (and weeping) third

The conflicts escalated among the leaders during privatisation. These conflicts, the lack of unified guidance had a major role in the decline of the company which became manifest by the early 90s in the drop in production, failure to develop, loss of markets and production with a deficit. A state of bankruptcy arose by summer 1993: the applications invited for the privatisation of the enterprise all ended without success, and financially, a quasi-bankruptcy emerged. The problem was the most serious for the financing bank: the enterprise's stock of credit had risen to equal the value of its assets. The bank was not the owner but tried to acquire some ownership rights. To this end, it appointed bank commissioners to the helm of the firm. Another triadic game was on the rise: in addition to the two existing camps, another gang - the bank commissioners - appeared with the increasingly obvious goal of getting hold of the enterprise's assets together with the bank: "The real aim was to obtain the firm's shares jointly with the bank. Bank commissionership was the first step," Bank Commissioner B.B., today member of the board of directors, commented.

The inner strife foiled an in-house buy-out and the acquisition of ownership by the middle managers at several points. In the first attempt, I.G. asked K.I. to work out a buy-out project. In K.I.'s plan, the lower-ranking managers had to get shares as well because they were in immediate contact with the workers and had a significant influence on running the company. K.I. precisely named the 15 key persons who ought to have been co-opted among the shareholders. When, however, he told G.I. of his idea, it soon turned out that the director had other plans: he did not want to extend the circle of owners so wide. Thus the first attempt was baulked

by I.G. The earlier professional conflict between the two leaders further deepened, and both set out along their own paths.

With two external board members¹², I.G. submitted a leasing tender for privatisation, without informing the other leaders. This the SPA turned down, allegedly for formal reasons. The other side also took steps: K.I., together with K.K., tried to talk the leaders into concerted action and submitting a joint declaration to the SPA that they laid a claim to the firm. Naturally, they did not want to involve I.G. People were already inflamed, but then Mrs.F.K. (one of the three top leaders) refused to sign the declaration. She mentioned two reasons in explanation: first, she did not see an in-house buy-out possible without I.G. being involved. Second, in her view, the enterprise would collapse financially without the bank commissioners, so nothing ought to be done that might jeopardise the favourable relationship with the bank and its representatives. Mrs.F.K.'s behaviour disheartened the others: only one of the three top leaders supported the proposition, so the others backed out. The attempt failed.

The prognosis worded at the end of the previous subchapter - notably, that the coalition of K.I.-Mrs.F.K. indispensable for an in-house buy-out would not come about - seems to be verified. Instead, Mrs.F.K. allied herself with I.G.¹³ Apart from the logic of the situation - primarily conceivable in terms of the peculiar distribution of power inequalities in the organisation, other factors (e.g. the personality traits and risk-taking willingness of the participants) also had a share in bringing about this league. At any rate, it is a fact that neither at this point nor earlier did the necessary coalition for buying out from the inside arise, and the conflicts in the top management largely contributed to the failure of all internal attempts to this end.

The last, and successful, competition¹⁴ to privatise the firm is associated with the bank commissioners. Seeing the rapidly deteriorating financial position, indebtedness of the enterprise, the lending bank appointed bank commissioners 'in the person' of the GHI Ltd. to audit the company. Thanks to the manoeuvres of the bank commissioners, they managed to acquire the enterprise in the so-called one-forint transaction, with the backing of the bank. The true beneficiary of the conflict within the top management was the third party, the *tertius gaudens*, the new owner. The wrangling at the top, partly taking the form of different opinions on professional issues and partly derived from conscious position fights, provided the third actor with the opportunity - indirectly, through the deteriorating performance and indebtedness of the firm, and directly, through the failure to buy out the firm internally, to acquire the enterprise's assets. The real loser of the situation (the 'weeping' third) were the middle managers. Their situation was probably less favourable (both in terms of income and in terms of power position within the enterprise) than it could have been, had the MBO-EPO construction envisaged by K.I. earlier been successful.

Among the post-privatisation structural and personnel changes, the termination of the foreign trade company and the departure of the trade division leaders K.I. and K.K. have special relevance to our topic. The new owners decreed that the successful running of the enterprise was incompatible with its top leaders having private enterprises in the same line of business. Those who had such enterprises

had to choose between their own business and remaining with the firm. K.I. and K.K. decided on their own firm.

Of course, it cannot be precluded that all this was merely a good excuse for I.G. - who remained managing director after the privatisation - to get rid of his old rivals.¹⁵ Most probably the new owners were also aware that K.I. and K.K., who enjoyed the backing of most middle managers, would have been 'tougher partners' than I.G. and Mrs.F.K. Whether such considerations were to be found behind the idea of the new owners or not, they were again in the most favourable position of the laughing third: those leaders of the defunct firm remained in position (first of all I.G. and Mrs.F.K., the new financial director) who did not have a strong bargaining position in face of the new owners since they were not supported by the majority of the middle managers. They were the ones who courted the favour of the new owners: "K.I. and K.K. had nearly all the middle managers behind them, as compared to I.G., who had only one or two loyal apparatchiks... That was also why our appearance at the firm was important for him," former Bank Commissioner and present Board President B.B. recalled. I.G. and Mrs.F.K. sought their allies among the new owners, and in league with them they have won over the middle managers with the passing of time.

Closing remarks

Strategic interaction among the top leaders, and conflict-laden efforts to get the right to annuity and position, as aptly illustrated by the above example, may fundamentally influence the process and outcome of privatisation. On the one hand, they may impede or even prevent internal buy-outs and the initiatives of the employees to acquire part ownership, and on the other hand, they may make things easy for the potential new owners. By clarifying the unintentional side-effects of differences and strife among the top leaders it may be possible to get closer to the exploration of interpersonal relations as preconditions of privatisation processes. An analysis of privatisation jointly in terms of economics and sociology might in fortunate cases promote the more thorough understanding of the microstructure of the processes.

Notes

¹ The paper is part of an OTKA research (T006730) entitled "The economic sociology examination of hierarchic economic organisations". The research is headed by László Csontos (Central European University, Department of Political Science - Dept. of Sociology, Budapest University of Economic Sciences) with participants Lajos Bódis (BUES, Dept. of the Economics of Human Resources), Hajnalka Fényes (BUES, Ph.D. student), Béla Janky (BUES, undergraduate), László Szakadát (BUES, Dept. of Microeconomics) and the authors of the paper. On the theoretical presuppositions and hypotheses of the research, see Csontos 1994. On the preliminary studies and partial results, see: Bódis 1995, 1996; Fényes-Janky 1996; Fogarassy 1995; Szakadát 1993; 1995. We owe thanks to the head of the research project and the participants for their valuable insights.

² Since the classic analyses of Georg Simmel (Simmel 1950) it is a sociological commonplace that the appearance of the third actor - in typical cases - brings about a qualitative change in interpersonal relations. The argument can also be extended to supraindividual actors (social classes, states, political parties, etc.). In Jon Elster's view, the Marxian analyses of the efforts of capitalists, workers and landowners to establish coalitions anticipated, embedded in a rich historical material, the classic theses of Simmel and Caplow (see Elster 1985: 379-390). In Hungarian research literature, thought-provoking argumentation can be found in Somlai's study (1992) on the triad.

³ In this brief overview, only the theoretical-conceptual issues conducive to the understanding of the paper are clarified. The detailed presentation of the theories in question would exceed the scope of this paper.

⁴ In the theory of the structural holes born from the encounter of economic sociology and network analysis, the role of the laughing third is, among others, to bridge the structural holes as mediators or entrepreneurs (Burt 1992).

⁵ Simmel commented on market competition: "Since the tools of competition imply advantages enjoyed by a third actor, the costs of the agreement to renounce them must also be borne by these third persons, i.e. the consumers in the economy" (Simmel 1973: 290).

⁶ It should be noted here that Caplow's analyses were later to be generalised to four-actor (tetradic) situations as well (see e.g. Willis 1962; Segal 1979).

⁷ Fictitious name, designed to prevent identification of the firm. All names included are fictitious.

⁸ For more detail see Fogarassy 1995.

⁹ Nevertheless this statement applies more truly to I.G., than to K.I. Outsiders, first of all the potential new owners of the firm, can also perceive it and exploit it in the bargaining processes of privatisation.

¹⁰ "...for example, the bank asked my opinion if I would accept the bank commissioners, if I could work together with them. Had I said no, they would have sent someone else. I was completely calm to the end, I thought they were in a decision-making situation, they would tell me if they still needed my work or not," I.G. commented on the appointment of the bank commissioners who, as will be seen, became the key actors in privatisation.

¹¹ Without the other two top leaders. Many of the lower-ranking leaders would have supported him, first of all K.K., the head of the foreign trade company, who had won as much influence in the company within a few years as his much more experienced superiors with a better insight into the local conditions. This is proved among other things by the single greatest change in the enterprise over the 80s, the establishment of the foreign trade company, which is to his credit in the first place. In this structural transformation his number one supporter was K.I.

¹² The enterprise was converted into a joint stock company in 1991. The managing director and president of the board of directors was I.G.

¹³ This became even more obvious in the light of later developments.

¹⁴ In the meantime, there were other unsuccessful attempts at privatisation. These, however, not being relevant to this theme, are not discussed here.

¹⁵ Facts can be put forward in support of both possibilities. Those involved naturally comment on this question from their own angle and interests. This makes the reconstruction of events more difficult.

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THE SELECTION OF BANK MANAGERS IN HUNGARY IN THE 80s AND 90s

The transformation of the Hungarian banking system is an important element of the development of a market economy. The banking sector, which used to have official and public administration functions, is increasingly becoming the scene of competitive business ventures. Presumably the transformation of the functions of banks sets new expectations towards the leaders: the meritocratic outlook and professional skills are being revalued, together with experts who are able to adjust to the quickly changing market environment by their openness towards the new.

The present paper tries to test this, apparently logical hypothesis by studying the changes in the composition of the bank managers, in their professional aptitude, and by exploring the possible motivations behind the recalls and appointments.¹ As the share of state ownership, and hence the influence of government has remained significant in the Hungarian banking system during the period under survey, the political aspects of the selection of bank managers cannot be disregarded either. So much so that the guiding factor chosen for the analysis was the changes of government besides the changes taking place in the institutions of banks.

The establishment of the two-tier system of banking: first generation bank managers

Antecedents: the characteristics of the one-tier system of banking

In the one-tier system of banking, suited to the classical planned economy, the National Bank of Hungary (MNB) was at once a bank of issue as well as a credit (commercial) bank.² In addition to the MNB, only the National Savings Bank (OTP), authorised to collect the deposits of the general public and to extend credit, the savings co-operatives, the Hungarian Foreign Trade Bank (MKB), established to handle the money circulation of foreign trade, and the State Development Bank (ÁFB), created to finance the central investments, performed the tasks of financial institutions. There was the curious symbiosis of the Central Financial Institute and the General Bank of Securities, which had a role partly of a financial institution and partly of an authority, handling matters related to foreign property.

MNB, in the role of the central bank, was an important economic organisation of the planned economy system as it had a significant rôle in the development of the plans of the national economy as well as in their implementation. The MNB participated in calculating the annual development plans of the different branches, together with the National Planning Office, the Ministry of Finance and the respective ministries, and also the necessary amount of money and credit, and

fierce political battles and bargains stood behind those activities. The financial plans were adjusted to the development plans of branches defined in kind, of which the credit plan was derived by prognosticating the resources of enterprises. After the plan was finalised, the credit directorate of MNB was left only with an executive task: to be at the disposal of the various branches with the necessary credit.

The credit extension activity of the MNB was greatly refined over the years within the limitations of the planned economy. Selections were attempted among the companies belonging to different branches by an increasingly professional assessment of creditworthiness, naturally within the limitations of the branches. From the mid-seventies onwards the MNB evolved a scope of credit, independent of the branches, primarily to finance investments serving import substitution and the reduction of energy consumption. The assessment of credit given for such purposes was preceded by a more thorough preliminary investigation than usual, and the utilisation of credit was also controlled. In the 80s, during the course of the allocation of credit given by the World Bank, even the indices of up-to-date credit assessment were employed in the MNB, which further extended the expertise of the creditors.

Though the quality of credit extension was rather poor in the mirror of results in the 70s and 80s, the credit personnel of the MNB learned a significant part of the *technical skills* which are employed in the banks of market economies. The methodology of applying for and granting credit (for instance, the financial indices studied) greatly resembled the ones used in the Austrian and German banks. The differences in the quality of credit can be explained more by indirect, and often direct political pressure, than by the lack of skills. The creditors were forced to accept the fact that credit had to be allocated to certain politically important big companies, irrespective of the financial indicators.

However, beyond political pressure, prudent credit was also hindered by the fact that *nothing was at stake when decisions were made about credit*. If the indices necessary to prove that the applicant was creditworthy were arithmetically correct, the decision-makers could not be taken to task. True, it was nobody's interest to subsequently disclose the wrong decisions. If it became obvious that an earlier allocation of credit was a mistake, the creditors of the bank and the financial managers of the company taking the credit supported each other, proving that poor performance was attributable to the deterioration of external conditions.

By the 80s the MNB had a *team of credit specialists* which partially had the proper financial knowledge to perform correct credit assessment as the basis of decisions on credit allocation under adequate conditions of responsibility.³ Naturally this knowledge was deficient, since the study of numerous factors (such as the ownership background of the debtor, his/her relationship to suppliers and customers, the quality of management) was indifferent or unimportant.

In addition to extending credit, another important field of the MNB of growing significance from the mid-70s onwards was *foreign currency*. Drawing credit for the country, the handling of debt and receivables and of currency reserves required special skills not possessed in other institutions. The foreign currency division of the bank was also surrounded by the curious atmosphere of secrecy which derived

from the circumstances difficult to control from the outside which were 'produced' by currency arbitrage and for which the head of the field even reaped political laurels. (Naturally the losses that inevitably incurred in the case of such transactions were kept secret.)

The prestige of the foreign currency sphere was also enhanced by the fact that only specially *reliable people* could be employed there. To a large extent the basis of recruitment was the circle of ambitious young men trained at the special universities (for example, the ones training diplomats) in the Soviet Union, or at the department of international relations of the Karl Marx University of Economic Sciences, and speaking foreign languages. It was expedient to support knowledge in the field of international relations with signs of political reliability (party membership, activity in the Young Communist League).

The mostly young and receptive experts working in this field acquired almost unique knowledge in important branches of banking. They also had the possibility to acquire professional practice in the foreign affiliates of the MNB and in the branch offices for durations varying between a few months and a few years, and they could even do responsible jobs, which helped this cadre in acquiring *modern knowledge of banking*. In addition they had the ability to negotiate in foreign languages - quite unusual in those days even in the sphere of banks - and they acquired familiarity with bankers' circles abroad which later on helped them find jobs (for instance, in Hungarian banks set up by foreigners). Opportunities to acquire similar professional skills were offered also by some fields of the Hungarian Foreign Trade Bank.

In the banking system of the 70s and 80s the role and responsibility of bank managers, and consequently their selection were strongly linked to the *intermediate status* filled by the banks. In addition to their administrative and official roles, they also had a business role, but the MNB as the bank of issue and the OTP as the master of state financing and distribution of housing, also performed a direct political function. The OTP, due to its quasi-monopoly position in collecting the deposits of the general public, was also the right hand of the MNB, since the deposits collected served decisively as the sources of credit granted by the MNB. The ÁFB, handling state resources allocated by government decisions, also co-operated with the MNB. The MKB, participating in the drawing of credit in currency and in the financing of special export-import transactions, was also an extended arm of the MNB.

Thus it is understandable that the selection of the top leaders of banks used to be primarily a *political decision* in those days, and skills could only be considered in the second place. As the number of candidates possessing skills and regarded as politically reliable increased, better qualified people could be appointed. Parallel to the political changes and to the spread of a more liberal economic philosophy, *technocracy* in the positive sense of the term *was also revalued*. However, *political loyalty* was a precondition of promoting even the best expert to a managerial position, and its existence could best be proved by party membership. (This does not contradict the practice that - similarly to other fields of public administration and to academic life - non-party leaders were also appointed in the second and third lines by way of declaring the importance of professional quality.)

Political reliability and expertise acquired different emphases at the various levels of bank management. The top levels unambiguously represented political status (the President of the MNB and his deputies first and foremost, and the general directors of the other banks, particularly of the OTP and the ÁFB), whereas professional aptitude had a much greater weight at the lower, less 'political' positions.

The selection of the management of the MNB could differ in some respects from that of the other politically important organisations. In fact the MNB increasingly developed its links to the international world of banks from the late 60s and from 1982 onwards, when IMF membership was acquired, these relations were further expanded. As the *international prestige* of the bank was an important political and economic interest of the country, it was felt important earlier than elsewhere to have managers on the topmost as well as middle levels who were able to conduct negotiations properly and to move in the international banking world.⁴

Two important traits of the personnel policy, characteristic of the banking system of the 70s and 80s, should be stressed so that the later processes may be easier to understand. One was that despite the strong politicisation of the selection of managers *it was more difficult to exclude the consideration of professional aptitude in the banking sector* than in many other fields of public administration because of a broader publicity deriving from the domestic and international credit transactions. The other important trait, obviously related to the first one, is that the group of young experts who had grown up in the MNB had acquired knowledge which was indispensable in the subsequently emerging world of business banking. This explains how many of them were able to work successfully as top managers of foreign-owned banks.

New banks and bank managers

The first steps of building a multi-agent banking system were taken already in the early 80s, though a political decision on the dismantling of the single bank structure, separating the National Bank of Hungary as the bank of issue from the banks serving businesses was only made in 1984.⁵

Loosening up the framework of centralised capital allocation evolved in the monobank system began in the first phase of the modernisation of the banking sector. *Financial funds* were created out of various resources of companies and co-operatives (development funds of foreign trading companies, technical development funds, funds of co-operative support and development). The specialised financial institutions, constituting the germs of the present small and medium sized banks, developed from them by the mid-80s.

This is how the predecessor of today's Inter-Europa Bank, the Interinvest Foreign Development Deposit Association was established in 1980; the Innovation Fund of the Building Industry, which was the predecessor of Ybl Bank; and the Financial Association for Technical Development, the predecessor of Investbank in 1983; the AGRIT Innovation Fund, which was the predecessor of Agrobank; the Industrial Co-operative Development Inc., the predecessor of today's Iparbank; Technova Co. Ltd., as

the predecessor of Corvinbank in 1984; then Konzuminvest Co. Ltd., the predecessor of Konzumbank and AGROSZÖV, founded by the deposits of the National Fund for Mutual Support which was the predecessor of Mezőbank. In addition the National Bank of Hungary set up the Fund for Innovation in 1980 as the predecessor of the Innofinance Financial Institute and subsequently the General Bank of Venture Financing in 1985.

The managers of the financial funds which can be regarded as the predecessors of the later small banks, *were recruited basically from two circles*. One was the Hungarian National Bank, the other was constituted by the economic organisations which were the clients of the funds. As contrasted to the banks established later, the managers of the majority of the financial funds established in the early 80s mostly came from the latter. This can be primarily explained by the fact that these financial funds were *not* really established for *banking functions* but for giving credit *like banks* for development purposes in particular professional spheres.

This outlook was well represented by the original 'philosophy' of Technova, established in 1984, according to which the objective of the company was to promote technical development, which meant the return of the loan was only a tertiary consideration and interest a necessary evil which was to be kept down to the minimum. The Fund for Innovation, established by the MNB, supported expressly innovative activities without the slightest hope and interest of returns. The 'financial institutes' set up from the funds of mutual support, retained the philosophy of mutual assistance for a long time.

At the same time there were managers who had other ambitions in the germs of banks. The former foreign trading personality, György Iványi, who founded Interinvest, or Géza Lenk of the foreign trading division of MNB, appointed to head the General bank of Venture Financing (ÁVB), launched their financial institutions with a more meritocratic set of values. However, this was not yet the generally characteristic attitude at that time.

The first newly established *real bank* was the Central European International Bank (CIB), which was set up by the MNB with the co-operation of foreign banks in 1979 in off-shore status. One of the deputy heads of department of the currency division of the MNB was appointed as its top manager. Later, in 1985-1986 the MNB founded Citibank and Unicbank, two mixed banks of domestic status. The top managers of these banks were initially delegated by the foreign shareholders, and the Hungarian ones were recruited from lower posts.

Generally speaking the managers of the new financial institutions, founded in the first part of the 80s, did not come from among the *top management of the existing banks or of public administration*. Presumably the reason was that the prestige of the new institutions was not yet as high as that of the existing ones, or of the top managerial posts of the MNB. This recruitment was advantageous also from the angle that the managers of the new financial institutes came not only from the top management of the MNB which was essentially bureaucratic and strongly politicised, but there was some fresh blood introduced as well. As managerial jobs in financial institutes were quite a novelty in those days, individual ambition, *receptiveness towards novelty* could acquire greater emphasis than in the usual bureaucratic careers.

Another trait of the modernisation of the banking system was the *development of the two-tier banking system*. After two years of preparation, the new system, in which the MNB, performing mostly the functions of a central bank, and the commercial banks, institutionally separated from it, entered into operation on January 1, 1987. Three new commercial banks, the General Credit Bank of Hungary (MHB), the Hungarian Commercial and Credit Bank (OKHB, later called Commercial Bank) and the Budapest Bank (BB) were carved out from the former credit directorates of the MNB.⁶

The majority of their managers came from the MNB and the personnel was 'taken over' from the former credit directorates. The deputy president, supervising credit to the food industry (Pál Kis), was appointed as number one manager of the OKHB, and middle managers of the MNB got jobs in the second line. The number one manager of BB was also a former cadre of the MNB (Oszkár Hegedűs).

The number one leader of MHB, Sándor Demján was an 'odd man out', as formerly he was the manager of the Skála company, who, though he corresponded to the reform spirit of the day, undoubtedly brought a new style to the world of banks. As contrasted to the prudent bank managers, who organised the apparatus of banks and the decision-making procedures hierarchically and bureaucratically, Demján represented the intuitive, dynamic manager of enterprising spirit, chasing ambitious ideas, with all the personal attractions⁷ and social risks. It is another matter - as it was subsequently proved - that bank managers who set out with a bureaucratic mentality were not always able to meet the ideal image of the prudent banker; each of the banks split off from the MNB, and the majority of the financial institutes developed out of the financial funds, got into a critical situation by 1991-1992 (cf. Várhegyi 1995).

It was not primarily the weakness of the managers that caused the crisis, but the fact that the banking industry had to be built almost from scratch, and that too in the period of the general decline of the economy. In the banks established without foreign help the internal regulations (for example, the manual on credit extension) had to be (should have been) elaborated without experience, while the development of the rules of bank supervision was also still in progress at that time. In the majority of the Hungarian banks the regulations of adequate standards were completed only in the first part of the 90s.

By 1987 a relatively colourful system of - at least formally - independent commercial banks was in operation, where specialised financial institutions with a more restricted range of activity could also be found besides the commercial banks authorised to perform a wide range of banking tasks. Subsequently further financial institutes were set up. Postabank was established in 1988 at the initiative of the state; a young associate of the MNB was appointed as its top manager (Gábor Princz), and retained his post even after the bank's partial privatisation.

Later on the already functioning financial institutes set up new ones. In 1989 the credit co-operatives set up the Hungarian Bank of Savings Co-operatives, or Savings Bank. In 1987 the MHB established a Subsidiary of Investment and Turnover, which became a commercial bank in 1989 under the name Dunabank; and in 1989 it founded Investrade (later on MHB-Daewoo Bank), jointly with the South Korean Daewoo. In 1988 the

OKHB founded the Merkantil Bank. The managers of these institutions were appointed by the parent banks, mostly from among the younger generation.

The banks founded in the second half of the 80s and the germs of financial institutes which later became banks, operated in the form of joint stock companies. Though with the passing of the Act of 1988 on companies the operation of the *governing bodies* was already regulated by a legal norm, their role - not considering the mixed banks - was initially a formal one, as the majority owner was the state, and the minority owners were the state companies, the clients of the banks, whose interest was not prudent banking but the acquisition of credit.

The presidents and general directors, embodied by one person, who had unlimited authority in the internal affairs of the banks, had to meet the expectations of the state and the companies owned by the state, intertwined with the political leadership. This system of requirements not only fundamentally determined their selection, but also their subsequent operation.

The signs of the approaching systemic change

The signs of the approaching systemic change were manifest also in the major banks besides the state and party machinery. The *Németh government* not only replaced the top management of the bank of banks, the MNB, fulfilling an important economic and political function, but also that of the most significant commercial banks.

President Mátyás Tímár and first Deputy President János Fekete were sent into retirement from the top of the MNB. Ferenc Bartha in his forties, who studied first at the Ministry of Foreign Trade, and later worked at the Council of Ministers, was appointed as the new President, and though - in contrast to his predecessor - he had no financial background, he fitted better the composition of the new government in respect of generation. Imre Tarafás became the new first Deputy President. He had an excellent training and also previous experience in the MNB.

There were changes also in the top management of the biggest *commercial banks*, partly under the pressure of government, and partly by voluntary departures. The head of the OKHB was sent into retirement and his place was taken over by the young and ambitious Géza Lenk, the former 'founder' of ÁVB. Gábor Erdély was appointed to head the MKB. He had acquired experience as head of the London subsidiary of MNB. The master of the distribution of housing was retired from the top managerial job of OTP, and a new manager was brought from the apparatus of the then local councils. Elemér Terták in his thirties, an educated and versatile expert was appointed to head the ÁVB. Earlier he had worked at the National Planning Office, but in the last year before his appointment he acquired some banking experience at the MHB. Mrs Gusztáv Báger in her forties replaced her predecessor, involved in a lot of doubtful big investments, at the State Development Institute. There was rejuvenation also at the top leadership of the mixed banks: György Zdeborsky was appointed the new manager of CIB, and Péter Felcsuti as

the manager of Unicbank; they had both learned banking in the foreign currency branch of the MNB.

During the last months of the Németh government the head of the Prime Minister's Office, Péter Kunos was transferred to head Agrobank, and the deputy finance minister, István Kollarik was appointed head of Iparbankház. Though neither of them had banking experience, they appeared to be suitable on the basis of their ability to learn the workings of that profession.

There was also a manager, Sándor Demján, the President and Director-general of MHB, who voluntarily gave up his job in March 1990, letting his place to be taken by a person more acceptable for the new government. Árpád Bartha, who had more than a decade of experience obtained at the credit departments for engineering and heavy industry of the MNB, was selected from several candidates to take over Mr Demján's place.

The replacement of bank managers by the Németh government obviously did not differ from the changes implemented in public administration and in the big companies. Visibly it served a dual purpose: partly to get rid of the compromised managers of the Kádár era, and partly to select better trained and more technocratic managers from the suitable generation.

The latter consideration did not mean that political loyalty was unimportant, but perhaps the requirements of a technocrat government, less ideologised than its predecessor, became softer. It is difficult to say whether MSZMP (Hungarian Socialist Workers' Party) membership was a precondition to selection, or was only a given fact. Though the majority of the bankers appointed to the topmost jobs continued to be members of the state party, presumably in those days it was difficult to find suitable people outside the party, as the majority of the ambitious technocrats, possessing professional experience, had joined the party earlier.

The bank managers appointed by the Németh government mostly came from the generation in their early forties, who started their professional career at the time of the 1968 reform or after. As a result they *not only possessed more up-to-date knowledge* than their predecessors, but their *outlook* also better suited the requirements of transformation into a market economy and to the way of thinking of a liberal economic philosophy.

The selection of bank managers after the systemic change

Next we study how the selection of bank managers and the system of requirements they had to meet changed after the first free elections of 1990, under the conditions of political pluralism. Understandably, at the time of systemic change the expectation was expressed that the dominance of political loyalty should give way to expertise measured in achievement.

Answering the question is not easy in two respects. Partly because in the transitional period of the late 80s expertise was significantly revalued, so if this is taken as a point of reference then one may easily get a negative answer. The other difficulty derives from the fact that attachment to parties remains much more hidden in the circle of professionals wishing to make a career in a multiparty

system, when the political structure changes in each election cycle, than earlier, when MSZMP membership was believed to be a merit for eternity. Because of the hidden party sympathies, the motivations behind the changes of personnel can be unambiguously assessed only in the case of openly pursued political careers.

Replacement of managers during the Antall and Boross governments

Despite certain voices in the electoral campaign, the Antall government did not totally upset the already evolved structure of bank management, though there were changes in some important posts during the four-year term.

The first significant personal change was introduced at the *top of the MNB*, where György Surányi, still very young, well trained and enjoying high prestige at home and abroad, was appointed on the basis of a six-party consensus. Surányi's appointment represented a kind of continuity with the governments preceding the systemic change as the new bank President, having a past in research, had held important posts under the Grósz and Németh governments at the Council of Ministers as well as at the National Planning Office. The new Deputy President was appointed from the bank itself and nobody was removed from among the old guard.

The next replacement of a leader - implemented amidst serious political overtones - at the bank of issue was linked to the passing of the bill on the MNB in late 1991. By that time the Antall government felt strong enough to appoint an MDF (Hungarian Democratic Forum) politician expert, the Minister of Industry, Ákos Bod Péter in the place of Mr Surányi, who had been appointed on the basis of a six-party consensus although he was subsequently constantly attacked by politicians of the governing party. As the nomination was not in violation of the law, the outrage of the various professional colleges, the broader public and the opposition could not hinder the appointment though it was contrary to the idea of an independent bank of issue - recently sanctified by the Act on the MNB.⁸ At the same time the former Vice-presidents of MNB were re-elected.

Changes in the operative leadership of banks with a majority state ownership

There were surprisingly *few changes of personnel*, implemented relatively late, at the posts of president and director general of the commercial banks during the Antall government. However, this does not mean that the government had no way of exercising pressure on bank management. As the proportion of state ownership continued to remain significant in the most important banks, the *possibility of the replacement of managers* continued to be a threatening instrument in the hands of the government.⁹ A similar sense of being threatened accompanied the period of the consolidation of credit and banks when the management of practically all the consolidated banks could have been dismissed with good reason, as it was done in other countries. The managers of the Hungarian banks were aware of this, and so felt themselves under continuous threat.

It is difficult to say whether the majority of the bank managers at that time remained in their posts as a result of the deliberate and sophisticated psychological game of the government, or no further change of personnel took place simply because of inertia, or the lack of new people suited for the operative management of banks.

It is almost natural that there was a replacement of the top management of OTP, the biggest bank. The chair of the former president and director general, who had been recruited from the sphere of the councils, went to Elemér Terták, who already had experience in bank management (MHB, ÁVB), but had to leave his post within a short time, in 1992, for an unknown reason. The new President and Director General was Sándor Csányi, a former head of department at the Ministry of Finance, who had acquired experience in banking as Deputy Director General of OKHB from 1989 onwards.

The top manager of MHB was replaced only in 1992: at the Prime Minister's personal wish István Töröcskei was appointed Director General. He had learned his profession at the foreign currency division of the MNB in the 70s and 80s.¹⁰ István Szalkai, the eminent financial expert was elected president, but he left that post soon after.

There was no change whatsoever in the top management in OKHB, the third biggest state bank: Mr Lenk, who forged ahead from the MNB to become a top manager, was able to retain his post as President and Director General in his second bank as an experienced banker during the first political term. However, in the Budapest Bank surprisingly the former MSZMP MP, Mr Lajos Bokros was appointed President and Director General.¹¹ The unusually young (only thirty years old) Zsolt Hernádi was appointed manager of the rather poorly functioning Savings Bank. Hernádi gave up his Deputy Director General's post at OKHB. There were only minor changes in the operative management of MKB, when the post of president and director general was split and Árpád Bartha, who was removed from the top of MHB, was given the Director General's job.¹²

The change of personnel at the top of smaller banks of less importance, where the state had a decisive share of ownership, could be *professionally justified* in general: the managers were removed from banks which got into grave liquidity situations. These included the Iparbankház, where the erstwhile deputy minister of finance of the former Németh government was replaced by an expert from the MNB in 1992, and the Konzumbank, where an old hand at agricultural financing was appointed in 1993. In the IBUSZ Bank too, where the top leadership was replaced in 1992, one year after its founding, there was again a multitude of professional problems. In the Mezőbank and Agrobank, both more significant than the former ones, and in the small Corvinbank and Investbank there was no change in the management during those four years.

Of the banks in mixed ownership, where the state had a considerable share, a replacement of the top manager took place only in the General Bank of Securities in 1990, while the head of the politically important Postabank remained in place throughout.

Based on the above survey, it can be stated that there was a *moderate replacement of top leadership* in the operative managerial posts and in those of the

general directors, and a *clearly political motivation can be discovered only behind a relatively few*. The operative management of banks was not in a worse position in respect of expertise during the Antall government than during the Németh administration: either because the same people were in place, or there was a flow of personnel only among the banks, or because the newly appointed managers also came from the same professional circle (former MNB, Planning Office, Ministry of Finance), as during the former government.

In relation to the cadre policy of the Antall government concerning bank managers one may raise the question of why the *personal consequences* of poor bank operations were not drawn in the case of some major banks. No replacement of managers took place either with the objective of punishment, demonstration or prevention as a corollary of *the consolidation of credit and of the banks*.¹³ Though personal responsibility could not be identified in the crises of banks, since the crisis of the economy, faulty economic policy, the shortcomings of regulation and the former practice of intervention in the management of banks had a general role in them, yet the fact that the majority of bank managers were left in their posts, had an important message.

In addition the consolidation of credit and of the banks renewed the formerly well known *bargaining processes* between the bank managers and the government, while it also pointed out the schizophrenic position of the managers of state banks. Initially, during the consolidation of credit, the managers tried to demonstrate the existence of less than the actual bad credit, and later on, in the phase of the consolidation of banks, when privatisation had become a declared goal of government, and thus dependency on the state seemed to weaken, keeping in view the interests of their banks, they rather overestimated losses.

In 1992 the schizophrenia of the government was projected to the bankers' behaviour: when targeted reserves had to be built for bad credit under the provisions of the new Act on financial institutions, most of the state banks did not do so because the Minister of Finance rather encouraged them to pay taxes in order to increase the revenues of the budget (cf. Várhegyi 1993).

The composition of the governing bodies

The Antall and Boross governments of the first term after the systemic change in the majority of cases left the operative management of the state banks to the managers already in charge in the majority of cases, and only a part of the changes of personnel was clearly motivated politically. However, what considerations were asserted in the selection of the members of boards and committees of supervision, suited to represent *owners' interests*, how far it was attempted to *exercise political influence* through them, is another question.

In the board of directors of some banks with a significant share of the state in ownership, there were people who occupied their seats in those bodies as political 'commissars', or held the post as a gift of their parties, but definitely not as experts representing the professional interests of the owner.

In the case of OTP the state delegated an MDF politician only to the committee of supervision, whereas one representative of MDF was elected to the board of directors of MHB as well as of Postabank. No such people could be found in the two other big banks. Of the smaller state-owned banks, the MDF politicians were represented in the governing bodies of Takarékbank, Corvinbank, MBFB, and also of ÁÉB, half of which was foreign-owned.

At the same time the two SZDSZ (Alliance of Free Democrats) politicians, formerly included in the committee of supervision of MKB and IBUSZ Bank, were not dismissed during the rule of the MDF government. In 1991, at the time of the first major changes of those bodies, even a Fidesz (Alliance of Young Democrats) expert, familiar with banking, was appointed to the board of directors of the biggest bank.

Despite some appointments of obviously political motivation, the composition of the governing bodies may be regarded as satisfactory from the angle of *professional aptitude*. Generally speaking about one third of the board of directors were bankers in the case of big banks, one third of them worked in academic fields (higher education or research institute), and one third were bureaucrats; in addition there was a representative of the governing party in some big banks (see Mátrai, 1994). Bank management represented a bigger proportion in the smaller banks and the entrepreneurial sphere in a few. People from companies had seats in the committees of supervision in the big banks, in keeping with the principle that the owners' control was exercised more by the committee of supervision whereas the board of directors was the organ of actual management.

The above description shows that open party control through the director general or membership in a governing body could not be traced in the case of all important banks. However, this does not mean that there were not other, more hidden ways of exercising pressure on the operative management of banks by the ruling parties, and by the dominant MDF in particular. Expectations communicated in closed session, by phone, or - during the last months - in letter continued to serve as instruments of influence for the political forces.

The hidden means of influence could naturally be used rather by the source and summit of power, but before the general elections the opposition of the day, who were expected to come into power, also had opportunities of asserting their interests. Presumably this will continue to be the case as long as the banks are owned by the state, since the managers of the state banks depend for their very existence on the political power behind the government in office. This has been proved by the two years passed so far of the term after the second free elections.

Bank managers in the first two years of the Horn government

When the MSZP-SZDSZ coalition came to power, the ownership structure of the banking sector was more nationalised and centralised than at the beginning of the Antall period. The fact that the bank shares, owned by state companies, were centralised (initially into ÁVÜ, the State Property Agency, and later on into ÁV Inc., State Property Joint Stock Co., and into the Ministry of Finance), itself had

enhanced the voting power of the state in the general assemblies. The power of the central state and government was further augmented by the significantly growing share of state ownership as a consequence of bank consolidation. In the most important Hungarian units of the banking system, taken over by the Horn government the *state had a qualified majority*, enabling it to direct these banks practically alone. This was the situation at the OTP, MHB, K&H and in the BB, and in a number of smaller banks.

Despite the declared programme of the Horn government, it started to deal with the banking system late. Though the coalition agreement stated that the consolidation of banks should be terminated and banks should be privatised as soon as possible, not much was done for these goals in 1994. It completed the programme of consolidation, started by the previous government and determined by the end of 1994, and attempted to prepare Budapest Bank for privatisation.

Though the leaders of the more important state banks could expect changes in managerial posts from the summer of 1994 onwards, the majority of those changes took place only at the annual general assemblies held in May. The new government and the Prime Minister first and foremost concentrated his attack on Mr Bod, the President of the MNB, who had been elected for six years. Since under the Act on the MNB Mr Bod could not be dismissed and his mandate was valid for at least another three years, he could be dislodged from his position only by threats, by making his position untenable, by bribery, or by the amendment of the Act. It is not known for what reason, but Bod finally resigned in November and took up his new job at the post in the EBRD, to be filled by appointment of the Hungarian government.

It was a great surprise that while Gyula Horn had promised the reinstallation of Surányi as President of the MNB already during the election campaign, he did not reach an agreement with him for months after Bod resigned. Finally he gave in under the weight of an increasingly poor international assessment of the country and struck his forced bargain with Surányi, who was by then acting as a tough partner.

The most important commercial bank, where the change of personnel was rather significant and fast was the MHB. This obviously had political reasons, though the shaken situation of the bank could also have justified the replacement of management. Mr István Töröcskei resigned under the increasingly vigorous attacks and a large part of the management gave up their jobs with him.

This time too the Horn government - just as in the case of the MNB - was not prepared to install a new leader to the place of the resigned one. The new board of directors was recruited rather slowly, which decided on the person of the new director general by inviting applications. The new board of directors, whose members include an experienced banker as well as a theoretical financial expert, ultimately elected Piroska Apró, the recently resigned cabinet chief of Mr Horn, as President. Zsigmond Járai, deputy minister of finance of the Németh government, the young father of the Hungarian stock exchange and the first head of the Inspectorate of Banks won the competition and became Director General. He had spent the previous four years in London and Budapest as an investment banker.

In addition to the MHB, changes in the leadership took place only in two smaller state banks at extraordinary general assemblies during 1984. Péter Medgyessy, the deputy prime minister of the Németh government was appointed to head the MBFB in summer. The president and members of the leading bodies of Corvinbank, owned by the Ministry of Industry and Trade, delegated by the Ministry, were replaced, but the director general kept his post. The new President was István Bihari, who was simultaneously appointed head of OMFB (National Committee for Technical Development); he was formerly the head of Chinoir, and the external expert, delegated by the Ministry of Industry and Trade was a researcher of banks, serving also as the expert of the SZDSZ, whereas the other external members of the board of directors were recruited from among the middle-level leadership of the Ministry of Industry and Trade.

The partial replacement of the leaders of the other state banks was planned by the government only for the *regular annual general assemblies* to be held in May 1995. After the appointment of Bokros as Minister, Béla Singlovics, the former deputy, now acting as Director General, was elected as Director General by the general assembly of Budapest Bank, who learned the trade in the MKB. In keeping with the new theoretical stand, the former post of president and director general was separated here too, Ms Márta Sulyok-Pap, the Reader of the Department of Finance of the Budapest University of Economics was elected as President. She was experienced in the stock exchange and had functioned as member of the board of directors in the previous term. There were no changes of importance at the other places of the board of directors and of the committee of supervision.

The general assembly causing the biggest *political storm* was that of the OTP. Referring to a government decision of December, the Minister of Finance tried to separate the jobs of president and director general here too, and wanted to appoint a president beside Sándor Csányi. However, Csányi as the head of the biggest bank, exercised his influence at the two social insurance boards, enjoying the support of MSZOSZ (the Trade Union Council), which were allocated significant ownership shares in the bank (10 % each) from the State Property Joint Stock Co. a little before the general assembly. But even the State Property Joint Stock Co., owning 40 per cent of the bank, did not support the immediate separation of the posts of president and director general as demanded by Bokros's ultimatum.

Though ultimately the representative of the State Property Joint Stock Co. came to the general assembly with a proposal to amend the constitution of the bank to make the change possible, the amendment could not be effected as the social insurance boards did not vote for the proposal.¹⁴ Incidentally no one was recalled from the leading bodies of OTP, only a few less known, new people were elected to them. The appointment of a very well trained and rather young former member of the board of directors as deputy president, who took up also the deputy director general's job after half a year, is worth mentioning.

The next power test came at the general assembly of the Commercial Bank (K&H), where the finance minister's will was victorious. Though it is true that here the Ministry of Finance had a large majority ownership, due to the consolidation of the bank, so it did not require allies to divest the president and director general, in place since 1988, of all his titles. The former deputy director of the Institute of

Foreign Affairs, László Láng became the new President, and the Director General's post was taken up by János Erős, the former Director General of ÁÉB, which strongly deteriorated under his leadership. With the exception of one person, the leading bodies of K&H were completely replaced. The general assemblies of Postabank and MKB took place quietly; there were no changes of personnel.

The mergers of banks, implemented in 1995, also caused changes in the leading jobs. The entire leadership of Agrobank, which practically went bankrupt and was only saved by the state, was replaced; the new leaders came from the management of Mezőbank, incorporating the former. The only change that has taken place in the leadership of Mezőbank is that the posts of president and director general were separated. Konzumbank was bought up by the MBFB, and Investbank was merged into the Centre of Financial Institutions.

There were hardly any personal changes in the 1996 general assemblies of state banks. The vacant seats of the president and director general of MBFB, who was appointed minister of finance, were taken up by a deputy secretary of state of the Ministry of Finance (Éva Hegedűs), and a former leader of ÁÉB (András Huszty). Láng, who was appointed hardly a year earlier, was removed without any explanation, and Mihály Kupa, the former Finance Minister (of the Antall government) was appointed in the rank of Deputy President.

During the first two years of the Horn government there seem to have been *more significant changes in the management* of banks than during the Antall government. The professional capability of the new leaders has not deteriorated in theory, but its improvement, if any, can be assessed only on the basis of experience.

The new government was also motivated to make more drastic changes in the management of banks because the former government had failed to take the normally expected step of removing the earlier leaders of banks that had been consolidated by the state with great effort. This step could have been taken on a moral basis even if the responsibility of bank managers cannot be unambiguously identified in the development of bad credit. This is why the promise of the first Finance Minister, Mr László Békesi, that he would immediately replace the managers of the consolidated banks, was understandable. It is either due to the impotence of the government, or to the emerging tension within the coalition in other fields as well, that it was done with a delay of six months or a year, and not even fully in the case of the small banks.

Conclusions

The experiences of a decade of the two-tier system of banking are rather interesting also from the angle of the selection of bank managers. Despite the many uncertainties in the individual acts, certain common features can be identified which lend themselves to drawing some general conclusions. In the following an attempt is made to summarise the accumulated experiences from two angles. One is the 'quality' of bank managers, their training and professional aptitude, and the second is their political dependency.

It is not easy to assess the managers on the basis of qualitative requirements in the case of such a newly developed branch as commercial banking. Yet the important question of what role has been played by professional aptitude in the selection of bank managers cannot be avoided in the period under survey. It is particularly important in a country where there has been a counter-selection in the appointment of economic managers for several decades, with assumed or real political reliability often in inverse proportion to professional qualifications.

However, it was a favourable starting point for the Hungarian banking sector that in the mid-eighties, when the majority of the new state banks were established, professional skills were already in the forefront, even in leading economic posts where the appointees were selected on a political basis. By that time the professionally well qualified group of specialists, speaking foreign languages as well, and coming from a wide range of backgrounds, had emerged and was also able to show the adequate signs of political loyalty. The broad range of technocrats in their 30s and 40s, who matured by the 80s, had a fairly pragmatic relationship to politics: they accepted the rules of the game which were prescribed by the unwritten but commonly known scenario of official career.

Under such conditions it is not surprising that in the MNB (and in other places of public administration as well), the main source of cadre of the new commercial banks, experts were available who - under the Hungarian conditions - were suited for managing the newly established banks relatively skilfully as managers in the first or second line.

Nevertheless, at the time of the selection of the first round of managers of big banks, mostly the traditional career was characteristic: the heads of MNB divisions were appointed as the top managers of the new banks. The representatives of the new generation, mentioned earlier, were appointed to the smaller banks, and even to the bigger ones after a few years. Moreover, many of the newer generation of people in their 30s have had an opportunity to make significant careers in banking. Today there is an increasing number of well trained young technocrats in the 'second line' who have mostly come from the special colleges of the universities where there has been much political as well as professional activity.¹⁵

After the systemic change there was no 'landslide' in the operative management of banks. The government and the parties behind it considered it sufficient if suitable people were delegated to the leading bodies. The operative leaders (general directors and their deputies, acting managers) continued to be drawn mostly from the banking profession, and to a lesser extent from public administration (Ministry of Finance, National Planning Office, ministries of the different branches), and from the sphere of company managers to an even lesser extent. Presumably it was accepted that bank management was a delicate profession which could not be left entirely to untrained people.

The recognition of expertise is reflected by the method of the change of personnel subsequently effected, when the new managers of big banks were either selected from among the top leaders of smaller banks, or by promotion within the

banks themselves. In the case of small banks, knowledge of banking was less important, as people who had a background either in the Ministry of Finance, or in other jobs of economic management, were also regarded as suitable for the job. Usually managers, trained at the foreign currency division of the MNB were delegated to the top position of banks of mixed ownership where the Hungarian state also had a share, and these people enjoyed the confidence of the foreign owners too.

Summing up it can be stated that expertise has gained an important role in the selection of the top operative leadership of banks. However, having professional qualifications, which can be considered fairly good under the Hungarian conditions, does not necessarily mean that all the bank managers, or at least the majority of them are really good bankers. Partly because this is a profession which can really be learned only in practice and so far few people have had the opportunity to do so. And partly numerous instruments of direct or indirect, institutionalised or informal political and economic influence were in operation, obviously limiting the development and assertion of careful, considered banker's behaviour.

The composition of the leading bodies of the banks was professionally not bad as in the majority of them there were bankers and researchers, or - in the state banks - bureaucrats representing the owner. The persons elected to represent the parties could not formally influence the decisions of banks due to their numerically little weight.

The extent of political dependency

The theoretical professional aptitude of the operative managers and the leading bodies does not mean in itself a decrease in the political dependency of banks. In fact this is not necessarily assessed on the basis of the quality of the elected persons, but *on the basis of the method of selection*.

In my view neither of the governments in power after the systemic change has weakened the formerly obvious dependence of the state banks on politics. Of course today this *dependence is more hidden and more difficult to document*, since it is no longer manifest in the managers' party membership as it was before the systemic change. Today every bank manager is a technocrat, and even most of the members of the governing bodies are also technocrats.

However, it continues to be among the rights of the government to select, or to leave in their posts the operative managers and governing bodies of banks owned (partly) by the state. When and which governmental organ, or person represents the state is almost indifferent in so far that usually the 'cadre politicians' of the coalition parties are also behind these decisions.

At the time of the Antall government it was not only the expert Minister of Finance, Mr Mihály Kupa, who could interfere in appointments to the top posts, but a series of MDF politicians too: directly the ministers responsible for the banks, at first Katalin Botos, and next Tamás Szabó, and directly other politicians who were experts to a lesser extent. In the background of the changes of managers during the Horn government there was the bargain of the two coalition parties, besides the open struggle of Finance Minister

Bokros and Privatisation Minister Suchman, together with the fight of the wings inside the MSZP (one should remember Csányi's case).

Only a single meaningful difference can be discovered between the behaviour of the two kinds of party coalitions: as contrasted to its predecessors, the Horn government did not appoint MPs and party functionaries to the governing bodies of banks. This is a merit beyond doubt, as at least the obvious appearance of direct political dependency and influence can be avoided.

It cannot be documented but it is commonly known that the *mutual dependency* of banks and politics has also survived, even though the method has changed. Prior to the systemic change it was clear how the credit of politically important big companies could be helped by 'a phone call from the top'. After the systemic change the situation (may) have changed in many respects. On the one hand the stakes have become broader: in addition to big companies now the parties have also come to the banks for support. The method may also have changed: in the case of coalition governments it is conceivable that even the banks are divided up between the coalition parties.

Those who thought and advocated the idea that it was possible to reduce the excessive politicisation of the economy under the Antall government without the radical decrease of state ownership, entertained illusions. Perhaps it is surprising, but the naive faith that the change of government is in itself enough to reduce the formerly criticised influence of the political state in the economy could be found not only among the socialist but even among the liberal politicians and their supporters. While for a long time the new government did hardly anything to speed up privatisation, it did not change an iota in the method of state control. Similarly to its predecessor, it keeps the most important economic posts, the top jobs of big state enterprises and banks under its influence by appointments and dismissals with political overtones.

In my view this is inevitable. State ownership not only gives a possibility, but at times it means a temptation impossible to fend off, and occasionally even irresistible pressure on politics to exercise its economic authority by ownership. The possibility is obvious: the economic manager, depending for his livelihood on the government of the day and the political forces behind, is exposed to political power, and hence he can be encouraged to offer services in return for keeping his post. The temptation is also understandable: the possession of economic authority may help in clinging to political power for a while; it may be manifest in the service of economic objectives, or ultimately in the strengthening of the material background of the party. Finally, there may occur an exigency, for instance in the case of bad relations between the coalition partners, when neither of the parties trusts the other one not to utilise state ownership in the interest of its own political goals, so it wants to 'make its own position sure'.

Notes

¹ The method employed in the study merges the analysis of documented facts with the personal experiences and information of the researcher as participant observer. The changes of the personnel of bank leadership can be followed in the volumes of *the Magyar pénzügyi és tőzsdei almanach* (Almanach of Hungarian Finance and Stock Exchange), published annually since 1990, and on the basis of the press releases following the general assemblies (the professional biography of the newly elected leaders is read out at the general assembly). Further information concerning individuals is based on personal acquaintance, or verbal communication. Hence 'soft' hypotheses are also worded at times, which carry the possibility of mistake in themselves.

² On the operation of the one-tier banking system see Hagelmayer 1976; Asztalos-Bokros-Surányi 1984; Antal-Várhegyi 1987.

³ According to Tamás Bácskai, one of the 'grand old men' of Hungarian banking: "Of the 2900 employees of the MNB there were, let's say, 500, and about 50-100 people at the OTP, who had the knowledge needed in a real bank. This knowledge partly derived from the fact that many of them used to work in banks before 1945, and others had read about how a bank operated" (cf. Becsky 1996).

⁴ Besides János Fekete, favoured even by the top political leadership, such a role could be performed by the highly educated and internationally acknowledged Tamás Bácskai, who was incidentally regarded as the 'enfant terrible' of the bank in the eighties because of his liberal views and outspokenness.

⁵ On the transformation of the banking system see first of all: Bácskai 1986; Bokros 1987; Antal-Surányi 1984; Antal-Várhegyi 1987.

⁶ The three banks, made autonomous, were set up with a marked profile of *branches*, which only slowly melted away during the course of years. Heavy and engineering industries mostly concentrated in the MHB, whereas the OKHB financed the major part of agriculture. The servicing sector and mining were concentrated in the BB. The branch concentration of credit increased the credit risk of banks and their dependency on powerful lobbies of branches.

⁷ On the basis of literature and films (and not comic papers and pamphlets of bad taste) the Hungarian public had an image of the banker who was a middle-aged rigid, introverted man, wearing a dark suit and demanding respect with his behaviour, which Demján could not, and presumably did not want to emulate. It was not only the issue of age, as many other, younger bank managers soon learned the forms of behaviour well known in the international banking world, and could develop relatively fast the closed, inaccessible world of Hungarian bankers, strictly observing the rigid hierarchy of contacts the formal traits of which closely resemble the world of leading statesmen.

⁸ Though no one challenged Bod's professional skills, the representatives of the financial profession were worried about the appointment of a politician to head the MNB who called attention to himself by participation in the subsequently infamous GAM programme (a programme in conflict with the officially announced programme of the government, as a rather voluntaristic programme for strengthening the economy). And 'political' public

opinion objected to the political motivation of replacement, which was corroborated by the Prime Minister himself stating that Surányi should not have signed the Democratic Charter.

⁹ Prior to the annual general assemblies there was anxiety among the managers of the banks in majority state ownership, and conjectures concerning replacements were frequently made in the profession at that time.

¹⁰ Well-founded attacks (primarily by the HVG - a weekly journal of world economy) were directed against Töröcskei and Imre Boros, appointed by him to the deputy director-general's post of MHB, who used to be the managers of Kultúrbank founded with the participation of the Ministry of Culture because of the transformations of the ownership, transactions of Kultúrbank and their related personal incompatibility. This, however - apparently - did not threaten the good business reputation of the two bank managers as required by the Act on financial institutions.

¹¹ Possibly the Antall cabinet wanted to suggest with this gesture that bank managers were not selected by political considerations. But even that assumption cannot be excluded that Antall's sympathy was evoked by the role Bokros took up in attacking spontaneous privatisation and in defending the temporary state ownership of the major banks.

¹² It is worth noting that the split of the post of president and director general was raised even as a theoretical issue in 1992. As ultimately there was no theoretical answer formulated to this question, the two solutions were applied in practice subject to the need of either job for a new person.

¹³ On the methods of the consolidation of credit and banks see Balassa 1996.

¹⁴ The following 'technical flaw', committed by the Ministry of Finance is only mentioned to characterise the bureaucratic apparatus of the state. The Ministry forgot to print its block of shares representing 18 per cent, therefore it was not allowed to participate in the general assembly of OTP, to which it attached such importance.

¹⁵ Though it is difficult to document, a significant part of these successful young men are first generation intellectuals from the countryside who have been able to bridge over the social and cultural gap separating them from the lifestyle of bank managers by serious efforts, learning and diligence.

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TAX BEHAVIOUR OF SMALL AND MEDIUM-SIZE ENTERPRISES*

Introduction

It is of great importance in a period of economic transition what entrepreneurs think of certain norms¹ accepted in market economies and to what extent they are able to enforce these in their business transactions, and to what extent they themselves are willing and able to act in accordance with these. One of these norms is financial discipline which, in our interpretation, includes the discipline of payments (as part of contractual discipline, a broader concept which also implicates the abidance by the terms of performance and delivery) and fiscal discipline, mainly denoting tax abidance (in the broad sense) as an obligation to the public/governmental sector. The strengthening of financial discipline is a necessary condition for the successful transition to a market economy (Kornai, 1993). Kornai claims that the spread of private enterprises and the strengthening of financial discipline are closely correlated: the growth of private firms, and the increasing consolidation of the private sector have a beneficial effect on the strengthening of market and financial discipline, because the budgetary constraint of private firms is harder, and "in new private enterprises the obligation of financial discipline must be imprinted from the moment of their birth" (Kornai, 1993). It is, of course, an open question to what extent this is effective in the initial years of the transition to a market economy in Hungary, and whether the undeniable improvement in the discipline of payments in market relations goes together with a parallel improvement of tax abidance.

This paper examines the validity of this assumption by analysing the attitudes of entrepreneurs towards taxation and investigating two segments of financial discipline: (a) tax abidance and (b) discipline of payments (as a proxy of contractual discipline) on a sample of 275 private small and medium-size businesses ('private' here means that in all these businesses there is at least a majority stake in private ownership, or the whole business is privately owned). The above relationship (private ownership equals improving tax abidance) is far from being true automatically for all groups of private enterprises as far as tax discipline

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is concerned. On the contrary, it can probably be presumed that the opposite statement - private ownership does not necessarily strengthen, but in certain cases even weakens tax discipline - can be proved.² Two factors may have a formative role in that: a) the experiences and behavioural norms acquired by the private enterprise owners and company executives in the former second economy may weaken tax abidance; b) firms in crisis regularly breach the obligations of contractual, financial and fiscal discipline since the tactic of delaying their obligations - including tax obligations - plays an important role in their survival strategies (Laki, 1991 and 1993). This latter device is used more frequently in recession, and is at least as much at the disposal of Hungarian private firms³ able to adjust to market and institutional conditions flexibly, as it is available to foreign and state-owned enterprises. This seems to contradict the assumption that private ownership in itself plays a positive role in consolidating financial discipline.

Another question to be clarified is whether the ownership structure and pattern makes any difference in financial (and especially fiscal) discipline. Does every private firm contribute to the spread of norms prevalent in a market economy, or is there a difference in this respect between private companies owned by Hungarian owners and firms owned by foreigners or foreign companies? It may be the case that it is not private ownership in general but a specific form of it - foreign ownership - that promotes fiscal discipline, since foreign owners mostly come from advanced countries where the norms of financial discipline are observed and they run their firms in Hungary in compliance with the requirements valid in their countries.

The relationship between various enterprise characteristics (number of employees, form of ownership, market position) and the differences in the specific forms of reducing tax liabilities (tax avoidance) as a form of adjustment to institutional conditions of the economy is also worth examining. How often and to what extent do specific groups of private firms apply tax planning, and take advantage of the numerous legal ways of avoiding taxation? This is expected to be closely correlated with the enterprises' market and financial situation, with the poorly performing firms resorting to these means more frequently. On the other side, significant differences are expected to be found between private companies with majority Hungarian ownership and those owned by foreigners. In the survival strategies of the former, exploiting the loopholes in the system seems to be far more important than in the case of the latter. The size of the enterprise may also be a decisive factor here: smaller firms may rely on tax avoidance to a greater extent (as compared to their total costs).

Last but not least, there are enterprises that not only make use of the legal possibilities of tax avoidance but, taking the benefits and the risks of breaching tax rules into consideration, evade taxes. There are (and there can be) no direct statistical data available on the incidence of this phenomenon, only estimations, suspects and guesses. The problem is, however, highly important: tax evasion, if it occurs frequently, erodes the development of financial discipline. Indirect statistical evidence, however, can be provided, and it is worth trying to achieve so as to have a more precise picture on the prevalence of the norms of the market economy.

Besides attempting to show the entrepreneurs' attitude towards taxation, the present study is aimed at testing the validity of the above hypotheses. In addition, the incidence of tax evasion is to be estimated within the group of enterprises studied.

The main characteristics of the sample

Company executives or manager-owners of 275 small and medium-size enterprises with a more than 50 % stake in private ownership and a maximum of 200 employees⁴ were interviewed for the survey. The firms were selected as a random sample from the database of APEH (Tax Administration Authority) data base containing the enterprise balance sheets and corporate tax return data for 1992⁵. The size distribution within the sample was found to differ significantly from the statistics of the respective enterprise population, since larger firms were over-represented in it. This distortion was corrected by weighting. The results published below are based on weighted data.

As far as the ownership pattern is concerned, the major stake-holders within the enterprises surveyed were Hungarian private persons, the firms' managers, other Hungarian firms, or foreigners (for the distribution of proprietors, see Table 1). In 1994, most of the enterprises had existed for only a few years. Over 74 % of firms were founded after 1989, 17 % in 1989, and 9 % before 1989. In nearly 80 % of the companies the 1993 net sales did not exceed HUF 100 million (1992 net sales below HUF 100 million was used as a criterion for selecting the sample); net sales were below HUF 50 million in 68 % of the firms. A high percentage (over one-fifth) of the company executives questioned declined to answer our question inquiring into after-tax profits in 1993, and 80 % of those who answered registered only a relatively small profit below HUF 5 million.

Table 1 Types of proprietors in the firms surveyed*

Type of owner	Frequency	
	Number	% rate
Hungarian private person	214	77.8
Hungarian private firm	35	12.8
Hungarian state-owned bank or firm	11	4.1
Management	38	13.8
Employees	22	8.2
Foreign firm, bank	37	13.6
Foreign private person	44	16.1
SPA or national holding (ÁVÜ, ÁV Rt).	6	2.2
Local authority	6	2.3
Hun. firm in joint (private + public) ownership	10	3.6

* More than one answer could be given

Market relations and taxpayers' opinion on the tax system

Sound market relations play an important role in the success of enterprises' adjustment to the requirements of the economy in transition. There is a considerable number of small and medium-size firms that produce goods, which have a long-term market, produce efficiently, so the growth potential of the enterprise seems assured. However, the insolvency of their clients draws them into a liquidity crisis or bankruptcy, or the uncertainty of their suppliers' market (i.e. the lack of financially sound and reliable subcontractors) prevents them from establishing themselves in the market.

Two questions were asked about market relations. One inquired about the firms' own performance in this field, asking the incidence of failures in meeting contractual obligations⁶, while the other asked the opinion of the company executives/owners about the reliability of their contractual partner companies. The responses reveal that within the circle of entrepreneurs surveyed contractual parties are frequently unable to meet their contractual obligations or to fully trust their partners. Seven % of entrepreneurs admitted having problems with meeting their contractual obligations on more than three occasions in 1993, 18 % had fewer than three such cases, and 75 % declared they had no such case in the year studied.

The respondents' opinion about their business partners seems to give a far darker picture. Only 16 % of the entrepreneurs stated that their contractual partners were always reliable, 60 % said they were "mostly reliable" and 11 % could rarely if at all trust them. No significant correlation could be detected between the answers to the two questions. Nevertheless, one may risk the opinion that meeting contractual obligations by the entrepreneur and his partners is more or less symmetrical: those who deem their business partners reliable are probably more likely to fulfill their own contractual obligations than the average.⁷

A considerable number of entrepreneurs considers not only the behaviour of the contractual partners but also *tax regulations* as a factor contributing to the increase of uncertainty. The majority of the respondents had a negative opinion on the functioning of the tax system. Nearly all said the Hungarian tax rules changed too often (93 %), and not many fewer (81 %) claimed that the extent of changes endangers the security of their business calculations.

Table 2 Breach of contractual obligations and reliability of business partners

Do you think that your contractual partners are...	Breach of contractual obligation in the previous year				
	%				N
	more than 3 times	less than 3 times	never	total	
...always reliable	5.3	8.9	85.8	100.0	43
...mostly reliable	7.3	20.7	72.0	100.0	186
...rarely reliable	2.8	17.2	80.0	100.0	26
...unreliable	13.9	13.9	72.2	100.0	11
Total	8.7	18.2	75.1	100.0	269

The heaviness of the tax burden imposed on the entrepreneurs by the different taxes seems to vary by tax type. The heaviest burdens are claimed to be the VAT (30 %), one of the payroll taxes, the employer contribution to the pension insurance fund (PIF) (24 %) and the corporate income tax (13 %) (see Table 3). By adding the percentages in the first 3 columns (referring to the first, second and third most burdensome tax) of the table it is possible to determine the cumulative frequency of mentioning a given tax amongst the three taxes imposing the heaviest burden. Nearly half the entrepreneurs mentioned VAT, the PIF contribution and the corporate income tax amongst the heaviest burdens.

The functioning of a tax system can be characterised not only by the complexity of the tax rules, but also by the clarity of these rules and the relationship between the tax-payer and the revenue office. The uncertainty stemming from the possibly mind-boggling tax rules and the lack of their transparency as well as settling the problems due to these very features may create *additional costs* for entrepreneurs. The way disputes about the interpretation of tax rules can be settled or erroneous tax returns can be corrected, the characteristics of the operation of tax administration are not negligible factors when determining the influence exerted by the tax system on the enterprises. To minimise the ensuing uncertainties, an entrepreneur has to reckon with more than just the cost of settling a moot question, he must also face the costs incurred by trying to prevent such cases (e.g. by employing a tax consultant).

Table 3 **Ranking of taxes by the heaviness of burden they impose on the entrepreneur**

	First	Second Heaviest	Third	One of the three heaviest
Value added tax	30.0	13.3	12.1	49.0
PIF contribution	24.3	16.3	13.9	47.6
Corporate income tax	12.9	23.3	17.5	45.6
Health insurance contribution	7.3	16.6	8.5	28.0
Customs duties	4.3	3.5	7.0	12.2
Local taxes	0.9	1.6	5.4	6.1
Contribution to UI*	0.1	1.5	7.0	6.3
Other taxes	1.5	1.8	3.0	2.3
N=	261	251	191	275

* Contributions to the Solidarity Fund, used to finance unemployment insurance benefits at the time of the survey

To test these factors we examined the incidence of tax disputes over the interpretation of tax rules and certain characteristics of the procedures to settle these. We have found that a broad stratum of entrepreneurs is forced to reckon with extra expenses incurred by the uncertainty of tax rules.

Nearly half (42%) of the respondents reported having some disputed affair with the tax authority (APEH) arising from a difference in interpreting some tax rule or tax authority resolution. 50 % of the above had more than one such affair. 61 % of those faced with this problem consulted the relevant tax administration office personally more than once. 70 % of the cases of this kind were settled within half a year, 14 % required a year, and in 17 % of the cases it took more than a year to settle the moot question.

The above view is also supported by the frequent occurrence of the opinion that the settlement of disputed matters with the tax authority depends heavily on personal connections (see Table 4). It is confirmed again that the complexity of the tax rules and the imprecise information issued by the tax authorities cause headaches for a great many of the entrepreneurs.

Table 4 Opinions on tax rules and the way the tax authority operates

	Fully agrees ('true')	Partially agrees ('there is some truth in it')	Disagrees ('false')
Tax regulation is extremely complicated, even accountants can hardly cope with it	69.3	23.7	7.0
Tax forms are hard to understand	60.3	29.9	9.8
Much depends on personal connections in arranging disputes with APEH	59.1	27.7	13.30
APEH provides sufficient and timely information to entrepreneurs concerning their tax obligations	18.1	25.9	56.0

Since there is no correlation between opinions concerning the importance of personal contacts or the complexity of tax rules on the one hand and the previous occurrence of tax disputes between the enterprise and the tax authority on the other, one may conclude that these opinions are not just (perhaps biased or over-generalised) inferences drawn from direct personal experience but widely accepted views.

Determinants of tax behaviour and the attitude towards taxation

When planning the sample, we selected private firms with a more than 50 % stake in private ownership. There were, however, no restrictions on firms according to the characteristics of *minority owners and/or majority private proprietors*, and the enterprises in the sample show a varied ownership pattern.⁸ In the following, the impact of ownership pattern on tax behaviour and contractual relations is examined, by defining certain ownership types (foreign, managerial and/or employee, state, and mixed ownership). Our hypothesis is that contractual discipline and tax moral are more rigorously observed in firms with a stake in state or foreign ownership, whereas in firms with some employee and/or managerial ownership there is a slacker attitude.

Four variables were created based on the type of the ownership pattern: foreign (KLFD), state (ALLAM), management and/or employees (MEDO), and mixed ownership (VGYS).⁹

We used statistical methods to examine whether ownership types as well as the size of the enterprise (net sales, number of employees), the incidence of plans to dismiss some workers, and net profit form a statistical relationship with some indicators characterising the stability of market norms and the entrepreneurial attitude to taxation. These indicators were the following: the incidence of tax arrears (ADOTART), the incidence of VAT-evading sales among business partners (AFAPAR), the incidence of employment at minimum wages¹⁰ (MINLF), the share of employees paid at minimum wages within the whole staff (MINLR), the share of fringe benefits in total labour remuneration (JUTTARA), the occurrence of a

significant reliance on paying fringe benefits in order to diminish personal income taxes (JUTTAR) and the incidence of breaching contractual obligations (SZERSZ).

Before presenting our findings, let us briefly summarise the main features of the enterprises grouped into the four ownership types described previously. 21 % of the enterprises were partly owned by foreigners, 4.3 % by the state, 13.5% by the employees and management, and 6.3 % were partly owned by a mix of owners belonging to different categories.¹¹ The firms in the sample with foreign owners usually have better market positions with net sales above the average. Nevertheless, regarding the size of their labour force they do not seem to differ from the others. They plan fewer lay-offs and more investment than the rest of the firms. Their offices are better equipped and they have a more advanced business infrastructure and administrative background than the average.¹² 28 enterprises in the sample were partially owned by the state (through its specialised agencies or through another state-owned company). They do not deviate radically from the average according to any of the characteristics analysed here. They tend to plan staff reductions more often or to a greater extent and have a slightly larger workforce than the average of the sample. Their profit and net sales do not differ significantly from the average either, but they are better equipped than the rest of the enterprises. The firms (wholly or fully) owned by the management and/or the employees tend to be smaller than average concerning net sales. The share of firms with only minimal profits is somewhat above average among them, and their infrastructural background is also less developed than that of the rest of the firms. The distribution of enterprises in the mixed ownership category according to the size of labour force, net sales and profit is similar to that of the rest of the sample.

Let us now see what statistical relationships could be detected between the characteristic features of the enterprises and the factors examined. The incidence of tax arrears (ADOTART)¹³ did not show any noteworthy association with either net sales or profit. Tax arrears were slightly more frequent amongst firms with a medium-size workforce (employing 11-25 persons).

A positive association was, however, found between plans to cut back employment and the incidence of tax arrears or delayed tax payments. This corroborates the assumption that the joint reliance on two different types of crisis-management methods, notably the deferment of obligations (e.g. postponing the problem) and a real answer to the crisis, i. e. a reduction of costs by some means (e.g. by employment cut-backs) can be observed among entrepreneurs (Laki, 1993), however, there also might be a trade-off between these two strategies (postponement vs. resolving the problem).

None of the listed ownership-type variables seems to be significantly associated to the incidence of tax arrears. However, if we use a broader definition of partial state ownership¹⁴ (ALLAM2), a significant positive association can be found between state ownership and delays in the payment of taxes due. *Firms partly owned by the state are over-represented among the enterprises delaying their tax payments or having tax arrears.* This seems to support the widely held view that state ownership implies slacker discipline of payments.

VAT-evading sales among business partners (AFAPAR) are more common among the contractual partners of smaller firms. The incidence of such sales seems

to be less likely among firms in which the state or foreigners (foreign companies) have a stake (cf. Table 5). This might, however, be partly due to a cross-effect between company size and ownership type: above average net sales and labour force are typical in these two ownership categories.

Table 5 **Connection between VAT-evading sales (AFAPAR) and some enterprise variables**

Variable	Gamma
Size of labour force	-0.33878
Net sales	-0.39924
State ownership (ALLAM)	-0.17009
Foreign ownership	-0.37498

In the logit model examining the interrelation between the incidence of VAT-evading sales (AFAPAR) among contractual partners and some features of the enterprise, the effect of the ownership type (ALLAM2) disappears. On the basis of the results of the complete logit model (see Table A1), a significant relationship could be found between company size (measured here with net sales) and the incidence of VAT evasion in the close business environment of the company: *VAT-evading sales are more likely to occur among the contractual partners of smaller enterprises (with net sales below HUF 10 million) than in the case of the bigger companies.* However, as the size of the enterprise (measured with net sales here) increases, this relationship practically phases out. If we omit from the complete model the tertiary interaction represented by the three-factor product (AFAPAR*ALLAM2*NARBEV), the model will no longer fit the data at an acceptable level¹⁵. This means that the probability of VAT-evading sales is not independent of this complex 'tertiary factor'.

Substituting the foreign ownership variable (KLFD) for the previous ownership type variable (ALLAM2) in the logit model it is found that only the secondary effects (2-factor products) are significant. There is again a significant relationship between company size measured by net sales and the incidence of VAT-evading sales among contractual partners. VAT-evading sales seem to be less likely to occur among the partners of foreign-owned firms, however, this effect is significant. The association indices show a slightly weaker relationship than in the previous case.¹⁶ As far as the other two ownership type variables (MEDO and VGYS) are concerned, in the models using one of these variables similar results are obtained: neither seems to have an impact on AFAPAR, with company size being the only demonstrable influence in both cases.

Planning the remuneration package appropriately (by employing workers at a low wage level) may represent another - in this case legally accepted - way to minimise or diminish tax burdens. It is not infrequent that small and medium-size firms employ some part of their labour force for the legal minimum wage or a wage just exceeding this, and at the same time they remunerate these workers in other ways (e. g. with fringe benefits or unreported 'from pocket to pocket' payments, or

by subcontracting work to their small businesses, etc.). The survey revealed that 11% of the respondents had employees with a reported monthly salary below HUF 9000 (just slightly exceeding the minimum wage in 1993) and 47% employed workers below a relatively low HUF 15,000 a month. The number of these workers, however, did not exceed 5 in three-fourths of the valid cases.

Comparing the number of employees at wage levels low enough to arouse the suspicion of tax avoidance through remuneration planning, that is with a monthly income below HUF 15,000 (MINLR) to the size of the entire workforce of the enterprise, it is found that the rate of those employed at low wage levels is higher in smaller firms than in bigger ones. The value of the correlation coefficient ($r = -0.6102$) resulting from logarithmic data reveals a strong inverse relationship between the two factors.

Even if we include such different factors as expected lay-offs, frequency of breaching contractual obligations, state or foreign proprietorship and the importance of tax planning through planning the remuneration package (measured with the share of fringe benefits and other tax-free payments in total labour remuneration) in the regression model used to explain MINLR, it is again found that only the number of employees (LNLSZM) has a significant effect.¹⁷ According to the regression model, the estimated share of employees hired at 'substandard' (close to minimum) wages within the entire workforce is 22 % in a firm of 20 employees, while it is 13 % in a firm with 50 employees and estimated at only 5 % in a company employing 400 people (see Table A2 for the regression results).

The role of fringe benefits in tax planning has already been mentioned. We expected the extent of their use to be related positively to the incidence of employment for 'substandard' wages, that is, we expected that smaller firms (known to rely on employment at 'substandard' wages to a greater extent) take advantage of these loopholes more frequently than the big ones.

Accordingly, we included the logarithm of the share of employees at 'substandard' wages within the total workforce as a dependent variable in the regression model estimating the share of fringe benefits within total labour remuneration (JUTTARA). A weak inverse relationship could be detected between JUTTARA and the size of the total labour force. The results of the regression analysis also underline the decisive negative effect of company size on tax behaviour. In addition, a variable (SZERSZ) used to measure the incidence of violation of contractual discipline seems to have a significant effect as well: *firms that violate contracts tend to have a higher share of fringe benefits within total labour remuneration* (see Table A3).

Now we are going to investigate how the *occurrence* of the above phenomena (employment at 'substandard' wages; significant tax planning through reliance on fringe benefits, etc.) are related to the characteristics of enterprises. This may be justified by the assumption that the occurrence (or the lack) of employing a specific device to avoid taxation or diminish the tax burden need not be related to the same enterprise characteristics that explain the extent to which that particular device has been employed. The dependent variables in this analysis included the occurrence of employment at 'substandard' wages (MINLF) and a categorical variable indicating

the significant (or insignificant) role of fringe benefits in labour remuneration (JUTTAR), while the formerly used dichotomous categorical variables (or: dummies) and the number of employees indicating the size of the enterprise were used as explanatory variables. The same explanatory variables were also used to explain variables indicating the frequent or rare occurrence of tax arrears and breach of contract (SZERSZ)¹⁸

We have found that those companies where the management was planning staff cut-backs were more likely to have some employment at substandard wages (MINLF) than the others (see Table A4). Foreign ownership seemed to have an inverse effect on this, that is, this phenomenon (employment at substandard wages) is less likely to occur in firms partly owned by foreigners than it could be otherwise expected¹⁹. Unlike the share of fringe benefits within total labour remuneration, the categorical variable showing the significant role of such benefits within labour remuneration (JUTTAR) does not seem to be related to company size. By contrast, a close positive association could be detected between either the occurrence of plans to lay off workers or the probability of breaching contracts on the one hand and JUTTAR on the other. While the model containing these two factors fits the complete model well²⁰, it also explains a relatively high share of total variance (see Table F5).

Our findings confirm that in the sphere of small and medium-size enterprises the incidence of taking advantage of loop-holes or 'backdoor-strategies' (e.g. employing people for minimum wage) and tax avoidance are closely correlated with the market position of the enterprise. These strategies are more likely to be resorted to if the firm is worse off and frequently breaches its contractual obligations.

The incidence of breaching contractual obligations (SZERSZ) shows a significant association with plans to reduce workforce and, similarly to our former findings, to tax planning through taking advantage of loop-holes associated with fringe benefits. Foreign ownership seems to have a negative effect but that is not significant at acceptable levels. The results reveal (see Table A6) that *those companies in which the management contemplates lay-offs and resorts to a wide use of fringe benefits (or other forms of remuneration with low tax cost) in order to avoid taxes are more likely to breach contracts than the others.*

Tax arrears and plans to lay off workers in the near future show a significant positive relationship. The models showing the interaction between tax arrears (ADOTART) and lay-off plans (ELBOCS) and between tax arrears and fringe benefits (JUTTAR) do not significantly differ from the saturated model (see Table A7).

The first relationship shows the importance of the connection between the short-term market position of the enterprise and the 'survival tactics' it resorts to. The second implies that firms using delayed payment of taxes as a temporary tool of maintaining operations have too limited means at their disposal to afford remunerating their employees through fringe benefits (above the wages they already pay).

Our results suggest that differences in ownership patterns within small and medium-size enterprises with a privately-owned majority stake have only little

impact on tax behaviour and attitude towards contractual discipline of enterprises. (Only a broadly defined partial state ownership showed some significant association with delayed tax payments.) The size of the company seems to be related to the composition of the mix of available tax-planning or avoiding activities chosen by the company. It has been shown that VAT-evading transactions between partners, employment for 'substandard' wages and wide use of fringe benefits (probably aimed at reducing the tax wedge) are more prevalent amongst smaller enterprises. Foreign ownership correlated only with the occurrence of employment for 'substandard' wages. Otherwise, contrary to expectations, the probability or the extent of employing different tax planning measures or survival tactics did not differ significantly by types of private ownership. This seems to disprove the assumption that foreign property would have a distinguished role in helping create the norms of a market economy.

By contrast, close statistical relationships could be detected between the various survival measures applied by enterprises. Frequent tax arrears go together with a higher than average probability of having plans to lay off workers. Also, the violation of contractual discipline increases the probability of lay-off plans and the incidence of tax planning through fringe benefits.

The findings confirm the *relationship between the uncertain market position of a firm and the loosening of its financial and contractual discipline*. As a result, the insecurity of the enterprises undermines financial and fiscal discipline, and hinders the successful transition to a market economy. The analysis allows for the conclusion that uncertain market and contractual relations as well as the insecurity of the regulatory (fiscal) environment have a greater affect on smaller firms, hence they are more strongly motivated to resort to legal and illegal modes of minimising their tax payments.

Estimating the share of tax-evading enterprises

An attempt is to be made now to estimate the number of enterprises in our sample which have committed tax fraud²¹. It is known from everyday experience that non-legal techniques of minimising tax liabilities (e.g. non-reporting or underreporting of sales, employing unregistered labour, etc.) are frequently used by small enterprises in the Hungarian economy. However, owing to the illegality of these actions, no exact data can be collected on the occurrence and incidence of these techniques, so one has to rely on estimations.²²

The occurrence of tax fraud (or the share of tax-evading businesses) among small and medium-size enterprises can be a significant indicator, showing the extent to which the norms prevailing in market economies are accepted, or inversely, it can indicate the existence of an uncontrolled 'wild capitalism'. However, what it also shows is how tax-payers perceive and interpret their relation to the given tax conditions and political circumstances.

Needless to say that tax evasion cannot be estimated in a direct way, so some indirect method must be chosen. Here, the randomised response technique was used. This technique allows the researcher to estimate the frequency of replies to

especially delicate questions in the sample and draw consequences for the population the sample was selected from. This way delicate questions referring to such matters as AIDS infection, drug abuse, or for that matter, tax fraud may be incorporated in a survey.

The respondent is given a pack of cards containing two opposite statements. Here: A1: "I have never committed tax evasion in running my firm", A2: "I have committed tax evasion in running my firm". He is then asked to shuffle and draw a card randomly and tell the interviewer, without showing it to him, whether the statement on the card is true or false in his case. The proportion of cards with the delicate statement/admission on them, p , is determined beforehand. This p must not be equal to 0.5; in our survey $p = 0.7$ was used. The essence of the technique is that it allows the researcher to determine the incidence of the studied phenomenon (represented by the statement A2) in the population using an estimator based on the relative frequencies of 'true' and 'false' responses and the known share of cards containing the delicate statement within the set²³.

The estimator is determined by the following formula:

$$Acs = \frac{1}{2p - 1} (X/n + p - 1) \quad (1)$$

where Acs is the estimated rate of tax-evading businesses in the sample,
 p is the rate of cards admitting tax fraud,
 n is sample size (number of enterprises in the sample)
 X is the number of 'true' responses to the question.

The variance of this can be estimated as follows:

$$V(Acs) = \frac{1}{(2p - 1)^2} \left(\frac{1 - f}{n - 1} \frac{X}{n} \left(1 - \frac{X}{n} \right) \right) + p(1 - p)/N \quad (2)$$

where $V(Acs)$ is the estimated variance of the share of tax-evading businesses,
 N is the size of (enterprise) population from which the sample was drawn
 f is n/N

There were 44.3 % 'true' and 45.7 % 'false' answers to our question concerning tax evasion. Using these survey results and the above formulas we arrive at the following estimations:

$$Acs = 35.8 \%, \quad V(Acs) = 0.0046362$$

Based on this the 95 % confidence interval for Acs is $35.8 \pm 13.4 \%$ at. Hence, *the share of those entrepreneurs who have evaded taxes at least once during their business activities is $35.8 \% \pm 13.4 \%$ in the population studied. Though this is a rather wide range, it certainly allows us to venture the statement that tax evasion is a fairly widespread phenomenon among small and medium-scale entrepreneurs.*

Even in the lowest case one gets 20 % of the entrepreneurs who have already evaded taxes at least once at 95 % probability level. When interpreting this figure, one must take into account the relatively short history these businesses had: an overwhelming 91% majority of the enterprises surveyed started to operate only after 1988 and 45 % had less than three years in business behind them at the time of the survey.

It is difficult to interpret this figure. Should the estimated share of tax-evading businesses be considered high or low, acceptable or undesirable? To answer this question, one ought to think over the sociological and economic consequences of tax evasion first. There is a debate going on in the literature on taxation about the extent to which tax evasion is desirable or undesirable.

Here we restrict ourselves to pointing out that on the basis of the constitutional model of fiscal choice developed by Brennan-Buchanan, in 1977, tax evasion may be desirable for the individual if he sees no legal possibility for restricting the fiscal power of the state-Leviathan (Spicer, 1990). If entrepreneurs consider the state's hunger for taxes excessive or unjustified - such a perception might have been triggered by tightened tax rules or tax administration at the time of the survey - this might lead to the spread of tax evasion.

Research on the underground economy has also come to similar conclusions while describing the causes leading to the decision to enter (or to remain in) the black sector. This decision is triggered not only by the high tax rates, but also by the subjective costs of cumbersome and overly complicated regulations (the complexity of tax rules) and the extent of such regulations. The level of participation in the visible labour market and tax morals, attitudes towards taxation also play a role in this (Lackó, 1995).

The rate of tax evasion found among small and medium-scale entrepreneurs can probably be attributed to these factors, also investigated in the present paper, especially the high tax rates and the extra difficulties caused by the complexity of tax rules.²⁴ These factors, as our findings have verified, affect the smaller enterprises more strongly. It seems to be likely that the share of tax evading businesses would have been lower had the survey also covered larger enterprises.

Notes

¹ Of course, these norms are not fully observed in advanced market economies, either. The violation of contractual discipline and abidance by payment terms is, however, efficiently sanctioned by the market. For further details on tax planning, tax avoidance and tax evasion in market economies see Spicer, 1990 and Forte-Peacock, 1981.

² "... precisely those enterprises will have a dynamically growing market share that are the most difficult to tax" (Tanzi, 1991).

³ Though the enterprises with the greatest outstanding debts to the Social Insurance Fund are almost exclusively state-owned firms, there is no contradiction involved here.

⁴ The survey conducted in spring 1994 was based on a questionnaire answered by top company executives. The sample was based on the following selection criteria: a) the annual net sales for 1992 did not exceed HUF 100 million; b) the enterprises belonged to one of the

following sectors: manufacturing; construction; commerce and trade; road vehicle and commodity repair and maintenance; hotelling and catering; transportation and warehousing; post and telecommunications; education; c) the ownership share of private capital (including stakes held by foreign owners and employees & managers) exceeded 50 %.

⁵ This database contained for 1992 all enterprises with single-entry and full double-entry book-keeping, filing tax returns. As a significant part of the selected enterprises were not found at the given address, we selected 139 firms satisfying our criteria from business indexes and the Hungarian Yellow Pages. We figure that two factors must have been underlying the fact that a great many of the selected enterprises could not be located: a) some of the enterprises existed only formally, if at all, at the time of the survey; b) many were run at different addresses from the official ones, mostly in private homes. We found that only 10-15% of the companies employing 10 or less persons and registered in Budapest could be reached at their 1992 addresses. This coincides with the findings of several other enterprise surveys, including the Enterprise Panel Survey by the Department of Sociology at the Budapest University of Economic Sciences, and a joint survey of entrepreneurs with the Central Statistical Office (Czakó *et al.*, 1994).

⁶ The question referred to the unilateral violation of a contract, triggering negative consequences ("Did it happen to you last year that for various reasons you were unable to satisfy your obligations undersigned in a contract and this caused you problems?"). As diversions from the original terms laid down in a contract might also occur with the mutual agreement of the contracting partners, or minor infringements might not trigger negative consequences, our question covers only some part of all contract violations.

⁷ 86% of those considering their contractual partners reliable also said that they always satisfied their contractual obligations, as compared to an average of 75%.

⁸ The sample being relatively small, it would have been pointless to ask about exact ownership shares. Most probably, there would have been no significant correlation between these and our variables describing enterprise behaviour. This was suggested by other research findings as well (Tóth, 1995).

⁹ For the definition of variables, see Appendix.

¹⁰ At the time the survey was conducted, the minimum wage was 9,000 HUF/month. However, as this has been raised considerably every year since then, and as in the private sector far better remuneration could be achieved than this, wages below 15,000 HUF are considered here to signal employment at 'substandard' wages.

¹¹ The rest of the firms are exclusively owned by Hungarian private persons or companies.

¹² On the basis of the questionnaire six variables were constructed describing the level of technical equipment, infrastructure and office conditions. These were not asked but filled by the interviewers after the interviews. They included the quality of office space (private flat, private flat converted into office, office building older than 10 years, new office building), how many people worked in the office, whether there were telephone, fax, computer, Xerox machine in the office. These replies were aggregated to produce a continuous variable indicative of the "seriousness" of the firm.

¹³ The following question was put to one of the company executives: "Has your enterprise ever been late in paying its taxes?" (Choices: 1 - no, 2 - yes, once, 3 - yes, more than once).

¹⁴ When not only those cases are considered as partial state ownership where foreign, managerial or employee ownership is not included (see the definition of the variable

ALLAM in the Appendix!), then the variable (ALLAM2) will indicate any case when state-ownership is also represented in a company.

¹⁵ The value of Likelihood Chi Square was 7.90990, with $p=0.048$.

¹⁶ The value of entropy is 0.056609, that of concentration is 0.061245.

¹⁷ It was tested with regression analysis. The logarithms of the number of employees receiving 'substandard' wages, the share of fringe benefits in labour remuneration and the number of employees (LNLSZM) were included in the model together with categorical variables describing other factors.

¹⁸ In the variable of foreign ownership, the former 0 value was re-coded as 2, denoting the lack of the combination of foreign and Hungarian private owners.

¹⁹ It should be noted here that foreign ownership meant in our sample foreign private persons as owners in most cases.

²⁰ The value of the Likelihood Chi Square was 59.41919, with $p=0.253$.

²¹ A special word of thanks is due at this point to István Varga, senior lecturer at the Department of Sociology at the Budapest University of Economic Sciences, who called our attention to the method applied below and the relevant literature.

²² The Institute for Economic Research (GKI) estimated the weight of non-registered economic activity (not all of these activities automatically entail tax evasion) at 27% of the official GDP (Árvay - Vértes, 1994).

²³ For a brief description of the method and the mathematics of the estimator, see Särndal et al., 1992.

²⁴ However, it must be noted here, that this is a self-reinforcing phenomenon: if it happens frequently, it may encourage the entrepreneur to choose tax evasion even in otherwise neutral decision-making situations, thus eroding the tax morals further.

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Appendix

Definition of variables

ADOTART	1 - tax arrears several times in the past 2 - no tax arrears or tax arrears only once in the past
AFAPAR	1 - VAT-evading transactions are typical among contractual partners 2 - VAT-evading transactions are not typical among contractual partners
MINLF	1 - there are employees at substandard wages 2 - there are no employees at substandard wages
ELBOCS	1 - plans to lay off workers in the near future 2 - no plans to lay off workers in the near future
JUTTARA	share of fringe benefits in total labour remuneration

JUTTAR	<ul style="list-style-type: none"> 1 - share of fringe benefits in total labour remuneration exceeds 30 %, 2 - share of fringe benefits in total labour remuneration below 30 % ;
SZERSZ	breaching contractual obligations occurred <ul style="list-style-type: none"> 1 - more than three times 2 - less than three times 3 - not even once
NARBEV	net sales are: <ul style="list-style-type: none"> 1 - below 10 million HUF 2 - 10 - 50 million HUF 3 - 50 - 100 million HUF 4 - above 100 million HUF
KLFD	<ul style="list-style-type: none"> 1 - if there are foreign owners but no state, managerial or employee ownership in the company, 0 - otherwise;
ALLAM	<ul style="list-style-type: none"> 1 - if there is state ownership in the company but no foreigners, managers or employers have a stake in it, 0 - otherwise;
ALLAM2	<ul style="list-style-type: none"> 1 - when there is any form of state ownership (stake held by ÁVÜ, ÁPV Rt, or state-owned enterprise), 2 - otherwise
MEDO	<ul style="list-style-type: none"> 1 - when there is some manager or employee ownership and no state or foreign stake in the company, 0 - otherwise.
VGYS	<ul style="list-style-type: none"> 1 - if two or more different ownership categories (from foreigners, state and management & employees) are represented amongst company owners; 0 - otherwise.

TABLES

Table A1 Saturated logit model of VAT-evading transactions (AFAPAR), number of employees and ownership type

Effect	Parameter*	Coefficient	Standard error	Z value
AFAPAR	1 (1)	-0.59394	0.17755	-3.34523
AFAPAR*ALLAM2	2 (1,1)	-0.03559	0.17755	-0.20047
AFAPAR*NARBEV	3 (1,1)	0.82209	0.33317	2.46745
	4 (1,2)	-0.22217	0.27265	-0.81483
	5 (1,3)	-0.15626	0.29453	-0.53055
AFAPAR*ALLAM2*NARBEV	6 (1,1,1)	0.52020	0.33317	1.56136
	7 (1,1,2)	-0.48006	0.27265	-1.76071
	8 (1,1,3)	0.02416	0.29453	0.08202
Variance	Entropy	Concentration		
Model-dependent	10.139	7.666		
Residual-dependent	138.027	93.224		
Total (d. f.: 247)	148.165	100.890		
Association	0.06843	0.07598		

*: the numbers in brackets show the actual value taken by the relevant categorical variable (or if there is a product of variables, the variable on the given place). For data sets and definition of variables see previous page).

Table A2 Regression on employment at 'substandard' wages (MINLR)

Dependent variable	B	Standard error of B	Beta	T	significance of T
LNLTSZM	-0.50102	0.06934	-0.57809	-7.225	0.0000
Regression constant	-0.00974	0.18333		-0.053	0.9577
R = 0.57809					
R ² = 0.33418		F = 52.20599			
Adjusted R ² = 0.32778		significance of F = 0.0000			
Standard error = 0.69925		N=106			

Table A3 Regression on the share of fringe benefits in total labour remuneration (JUTTARA)

Dependent variable	B	Standard error of B	Beta	T	Significance of T
LNLTSZM	-0.34923	0.10199	-0.31540	-3.424	0.0009
SZERSZ	0.44672	0.21933	0.18759	2.037	0.0442
Regression constant	-3.11043	0.27412		-11.347	0.0000
R = 0.35844					
R ² = 0.12848		F = 7.59290			
Adjusted R ² = 0.11156		significance of F = 0.0008			
Standard error = 1.02705		N = 106			

Table A4 Relationship between the occurrence of employment for 'substandard' wages (MINLF) and some enterprise characteristics (logit model)

Effect	Parameter*	Coefficient	Standard error	Z value
MINLF*KLFD	1 (1,1)	-0.16860	0.07814	-2.12756
MINLF*ELBOCS		0.16667	0.07814	2.13284
Variance		Entropy	Concentration	
Model-dependent		2.918	2.860	
Residual-dependent		148.683	106.395	
Total (d. f.: 218)		151.601	109.255	
Association		0.019248	0.026173	

* The numbers in brackets show the actual value taken by the relevant categorical variable in the order of variables in the relevant products given in the first column of the table.

Table A5 Relationship between the occurrence of tax-planning through fringe benefits (JUTTAR) and certain enterprise characteristics (logit model)

Effect	Parameter*	Coefficient	Standard error	Z value
JUTTAR*SZERSZ	1 (1,1)	0.32043	0.09321	3.42784
JUTTAR*ELBOCS		0.68755	0.09321	7.37672
Variance		Entropy	Concentration	
Model-dependent		14.688	11.195	
Residual-dependent		94.773	58.747	
Total (d. f.: 218)		109.461	69.942	
Association		0.134186	0.160055	

* The numbers in brackets show the actual value taken by the relevant categorical variable in the order of variables in the relevant products given in the first column of the table.

Table A6 Relationship between the incidence of violating contracts (SZERSZ) and certain enterprise characteristics(logit model)

Effect	Parameter*	Coefficient	Standard error	Z value
SZERSZ*ELBOCS	1 (1,1)	0.33038	0.09321	3.54465
SZERSZ*JUTTAR	2 (1,1)	0.32043	0.09321	3.43784
Variance		Entropy	Concentration	
Model-dependent		7.687	6.689	
Residual-dependent		120.357	79.892	
Total (d. f.: 218)		128.044	86.581	
Association		0.060036	0.077260	

* The numbers in brackets show the actual value taken by the relevant categorical variable in the order of variables in the relevant products given in the first column of the table.

Table A7 Relationship between tax arrears (ADOTART) and some enterprise characteristics (logit model)

Effect	Parameter*	Coefficient	Standard error	Z value
ADOTART*ELBOCS	1 (1,1)	0.47246	0.11150	4.23743
ADOTART*JUTTAR	2 (1,1)	-0.26803	0.11150	-2.40395
Variance		Entropy	Concentration	
Model-dependent		6.138	5.568	
Residual-dependent		140.202	98.473	
Total (d. f.:218)		146.340	104.041	
Association		0.041944	0.053520	

* The numbers in brackets show the actual value taken by the relevant categorical variable in the order of variables in the relevant products given in the first column of the table.

CHANGES IN THE STRUCTURE OF DENOMINATIONS IN EAST AND CENTRAL EUROPE

Two trends have emerged in the sociology of religion lately which have closer relevance to the present topic. One addresses the changing socio-political role and weight of religions and denominations also in relation to one another. While a pluralistic society and the transformation of symbolic goods into market commodities are altering the field of religion, the competition between the churches as macrosocial formations and the potential change in the proportion of denominations as a result are also worthy of note. This competition may lead to far-reaching conclusions as to the functions and functionality of the churches. So far, research has mainly highlighted their relevance to social organisation and politics.

The relative weight and proportions of denominations as different cultures and socio-political agencies and institutions are often part of a global question (Clévenot 1987; Hunyadi 1995; Lacoste 1990; Sontag 1991; Szigetvári 1991). The starting point in this case is that religions are the representatives of cultures and cultural spheres. Their expansion or retreat is the symbolic means and expression of the increase or decrease of cultural (and political) influences. The view is spreading that at a time of globalisation and economic and communicational unification, possibly the major source of regionalising the world is cultural tradition. Religions are the vehicles in which the goals, values, motivations, ideas of social organisation are most deeply rooted and which encompass most of culture as such. In this sense, it is reasonable to speak of the regional division of the world by religion and to derive the existing differences in culture and life strategies from religious and ideological traditions. It is justified to assume that these differences entail different degrees of competitiveness, or, to put it in another way, they lastingly determine the future development, the possibilities of integration into the whole of the world as well as the tensions and conflicts between the regions (Abe 1994; Huntington 1993a; Nakajima 1994; 1993b; Robertson 1994; Szűcs 1983).

The same approach can be applied within a single region as well. The Protestantism thesis of Weber and his circle (Schluchter 1988; Troeltsch 1923; Weber 1982) could be used to interpret the processes of differentiation within Europe. Religious or denominational affiliation appears to be a weighty factor even in today's efforts for European unification, both at the level of explicit political intentions (Greschat-Loth 1994) and in scientific interpretation (Baubérot 1994; Davie 1994; Vincent-Willaime 1993). One may choose to approve or criticise the socio-political relevance of denominational culture and the churches, but it would be narrow-mindedness to ignore it.

The denominational structure and its changes are of course instructive within a single country as well, apart from the international perspective. This means

countries in the first place where substantial social transformations are taking place also affecting the symbolic sphere. It is a recent insight reached by American religious history and sociology that the current extensive church membership and practice of religion is not the legacy of the 'Founding Fathers' or first settlers but the result of extensive missionary movements in the last century. The emergence of the denominational and religious distribution and map of the USA has not been linear but an outcome of several stages of dramatic changes in proportion (Finke-Start 1992; Mulin-Richey 1994). This recognition leads to the question of which denominations increased or decreased, and why. The answer is identical for both the earlier times and the past 20 or 30 years. The 'liberal', 'increasingly secular' churches focusing on social and welfare goals are spectacularly shrinking. By contrast, the churches that preserve their other-worldliness more persistently, assert harder internal norms, require strict ecclesiastic discipline, that is, the more 'conservative' churches were and are growing both in the size of attendance and significance (not only in relative but also in absolute terms in America, even after the elimination of factors like immigration) (Hoge-Roozen 1979; Kelley 1972; Roozen-Hadaway 1993).

The other mentioned branch of sociology of religion examines what role religion and the churches had in resisting the state socialist regimes in East and Central European countries and in the collapse of these regimes, and also, what share the churches have taken in the social transformation since the collapse. The effect of the Vatican's 'Eastern policy' is documented in detail in both political history and sociological terms. The primary and explicit aim of this was obviously the extension of the liberty of religion and first of all the Catholic church. In the meantime, the policy of the Vatican tried to weaken the totalitarian, and authoritarian power not only unconsciously but also deliberately, supporting the social, cultural and political alternatives. It is possible that the Vatican was more effective in supporting and encouraging social autonomy, civil society and cultural pluralism than any other factor criticising communism from the outside (Dupuy 1980; Stehle 1983; Winter 1972). Experts fully agree that religion constituted a counterpole to the centralising efforts and claims to ideological hegemony of the one-party state. This cultural otherness proved to be a force of social organisation. Possibly it was the only force that reached considerable masses and survived during the entire communist period, the centralised regime being unable to fully assimilate it. Ideologically-based integration and social organisation became the source of cultural self-education, mutual assistance, the emergence of a group consciousness, a certain degree of division of labour and the rise of information organisations, both in congregations and parishes, and in religious small and base communities, religious movements and 'underground churches' (Beeson 1982; Bociurkiw-Strong 1975; Michel 1988; Walters 1988).

Naturally, the question can be formulated at the level of formal politics as well. Did the official church leaders openly turn against the prevailing regime? (Gönner 1995). From the aspect of sociology, however, it is more informative to know how religiousness, the practice of religion (also fostered and protected by the official church leadership), the largely informal religious organisation and the secular activities of a religious community - in other words, "religion as an autonomous,

partly formal and partly informal system" contributed to the slackening and dismantling of the social monopoly of the one-party state. It took an enormous share, e.g. as the model and precedent of any 'second society' (Grabner-Heinze-Pollack 1990; Michel 1992; Nielsen 1991; Grycz 1988; Tomka 1995); as a living social network and texture which preserved its ability after 1989, too, to become a constituent element of a rising civil society (Borowik-Szyjewski 1993; Grycz 1991; Koprowski 1989).

At the juncture of the two research approaches the question arises as to what differences can be demonstrated in the social role of various denominations in the countries of the former East bloc. Within this very broad research field, the focus is now on the influence the communist age had on the denominational proportions. To put it somewhat differently: is the comparative weight of the different churches the same today as it was prior to the socialist-communist period? One of the most intriguing lines of investigation would inquire into the rise, survival and even growth of small churches or sects grouping hundreds or at most a few thousand people. Another problem of special interest is the extent to which the Protestant communities of Poland, Croatia or Slovenia constituting a minority below a few per cent have been able to preserve their size. However, both questions can be separated from the mainstream of research concerned with the major historical churches. They are either face-to-face groups or minorities given special treatment by politics as well. In addition, there is a lack of empirical research material which is indispensable for the interpretation of the situation. The former GDR with its Catholics amounting to some 6 % is a borderline case. All that can be stated for want of detailed investigations and any conclusions drawn is that in European comparison, the loss of religion reached the highest rate in the former GDR, but while the adherents of Protestant churches dropped to one-third of the former rate, that of the Catholic Church only decreased to half of the former proportion over the forty years (Mechtenberg 1985; Zulehner-Denz 1993).

The areas chosen for study include four countries in which both the Catholic and the Protestant churches are of substantial size: Latvia, the Czech Republic, Slovakia and Hungary. The topic of investigation is the social proportion of the congregations of the two kinds of churches and their relative weight. Since only the relative size of the major churches is examined, the question of the Jewish population is only touched on in passing (ignoring here the effect of the holocaust and emigration to Israel or other countries). Also disregarded are the old and new small churches and denominations with few believers. The population segment not affiliated to any denomination is present not as a research subject in itself but as the social boundary of the two religious communities analysed.

Latvia

No official statistics are available on the religious distribution of present-day Latvian society. As some central statistics from the 30s reveal, the majority of the population were Protestant (56.3 % in 1930, 61.6 % in 1935), mostly Lutherans, but the Roman Catholics and Greek Catholics were also sizeable minorities (32.5%

in 1930, 24.5% in 1935). Members of the Orthodox Church (5.1% in 1930, 8.9% in 1935) and Jews (4.9% in 1930, 4.8% in 1935) were far fewer. People belonging to no denominations practically did not exist (Latvijas 1938; 1939).

Significant concomitants of the Soviet era were the scattering of Latvians throughout the Soviet Union and the even more distressing fact of settling other, chiefly Russian, people in the country (Bremmer-Taras 1993). If the newcomers had any religious affiliations, they were almost exclusively followers of the Orthodox Church of Old Believers (one of the branches or sects of the Orthodox Church). The fact that the Latvian Orthodox Church enjoyed far greater freedom than any other church in the country on the one hand or than the Orthodox Church in the rest of the Soviet Union was certainly in connection with ethno-political considerations. At any rate, the exercise of religion dropped to a very low rate by the sixties and, at least until the independence of the country, it continued to decline (Table 1).

Table 1 Percentage of baptisms and church weddings in the total of births and weddings in Latvia in 1963-1992

	1963	1965	1972	1975	1981	1983	1984	1992
Baptism	29.3	27.9	24.0	22.4	20.6	19.1	18.5	-
Church wedding	9.2	7.6	5.1	4.2	4.3	4.4	4.6	26.0

Source: Benz 1995

This low rate of religious practice was distributed very unevenly among the churches. Though statistics on the practice of worship are only available for the last decade, the immense differences suggest that similar tendencies must have existed earlier. In the 80s the great majority of baptisms and weddings took place in the Catholic Church. As for baptisms, even the nominally majority Lutherans were surpassed by the Orthodox Christians (Table 2).

Although in 1992 Lutheran baptisms outnumbered Catholic ones, the number was far lower than their pre-1945 share would have justified. In the same year, Lutheran weddings tripled (but still lagged behind the rate of Catholic weddings). It is still a question whether the sudden rise in the Lutheran rates is to be attributed to the drive to make up for the missed baptisms and church weddings, whether the rate is stable and lasting for some time, or whether it marked only the beginning of an upswing. What is a fact is that some 70-80% of children born in Catholic families while only 4-5% of children born in Lutheran families were baptised in the (original) religion of the parents in the 80s. The pre-1990 figures of religious practice indicate a transformation of the country's denominational structure. It is possible that the formerly predominantly Protestant country will gradually turn Catholic (Benz 1995).

Table 2 **Distribution of baptisms and church weddings by denomination in Latvia in 1981-1992 (in %)**

	1981	1982	1983	1984	1992
<i>Baptism</i>					
Catholic	58.7	61.5	62.5	61.2	30.0
Lutheran	11.2	10.4	11.5	12.7	40.5
Orthodox	17.8	18.6	16.5	15.5	16.2
Old Believers	9.5	7.7	7.9	7.9	2.8
Other	2.8	1.8	1.6	2.7	10.5
<i>Total</i>	<i>100.0</i>	<i>100.0</i>	<i>100.0</i>	<i>100.0</i>	<i>100.0</i>
<i>Church wedding</i>					
Catholic	83.0	82.1	84.3	85.4	56.5
Lutheran	9.5	11.0	9.2	10.1	32.0
Orthodox	5.5	4.4	3.8	2.4	9.2
Other	2.0	2.5	2.7	2.1	2.3
<i>Total</i>	<i>100.0</i>	<i>100.0</i>	<i>100.0</i>	<i>100.0</i>	<i>100.0</i>

Source: Benz 1995

Czech Republic and Slovakia

In Czechoslovakia, especially in the Czech Republic, denominational traditions carry exceptionally strong political charges. In Czech and Moravian areas, both the national resistance to the Habsburgs and the bourgeois liberal opposition to 19th century papal centralism inspired anti-catholicism. As a consequence, the Czech Hussite traditions were revived and developed into a national myth, and in the interwar period, the Catholic Church was consciously pushed into the background. With the slight increase in the rate of the Protestants, the predominance of Catholicism decreased in this period. Nevertheless, it can be attributed solely to the political climate, despite spectacular departures from the Catholic Church and the foundation of the Czech national church, that the Czech Republic remained predominantly Catholic. (The increase in the numerical share of the Protestants by 1951 was due to a considerable extent to the expulsion or internment of some two million Germans from the Sudetenland who were all Catholic.)

Table 3 **The denominational distribution of the population of Czechoslovakia, the Czech Republic and Slovakia in census statistics between 1921 and 1991 (in %)**

	1921	1930	1951	1991	1991 as a percentage of 1951
Czechoslovakia					
N=	13,613,172	14,729,536	12,338,450	15,576,550	
Catholic	80.2	77.5	78.4	47.5	60.6
Protestant	11.1	13.1	16.4	5.3	32.6
Other	3.3	3.6	0.7	0.9	124.2
No or unknown denomination	5.4	5.8	4.5	46.3	1029.6
Total	100.0	100.0	100.0	100.0	
Catholics as % of Protestants	720.5	593.7	478.6	889.6	
Czech Republic					
N =	10,005,734	10,674,386	8,896,133	10,302,215	
Catholic	82.0	78.6	76.7	39.1	51.0
Protestant	9.2	12.0	16.4	4.1	24.9
Other	1.6	1.6	0.8	0.7	90.3
No or unknown denomination	7.2	7.8	6.1	56.1	919.2
Total	100.0	100.0	100.0	100.0	
Catholics as % of Protestants	892.4	655.8	468.4	957.5	
Slovakia					
N =	3,000,870	3,329,793	3,442,317	5,274,335	
Catholic	77.4	78.0	82.7	63.8	77.1
Protestant	17.7	17.1	16.4	7.8	47.5
Other	4.6	4.4	0.5	1.2	240.6
No or unknown denomination	0.3	0.5	0.4	27.2	7825.0
Total	100.0	100.0	100.0	100.0	
Catholics as % of Protestants	436.1	457.9	504.9	820.0	

The population of Slovakia is also preponderantly Catholic. This rate further increased in the interwar period, and then as a result of the holocaust and the 'exchange of populations'.

Then came the democratic elections and the communist takeover. Apart from the brief intermezzo of the 'Prague spring' the political power carried out the most violent and lastingly effective persecution of churches in East Central Europe, which on the opposite end led to the emergence of the strongest 'underground church'. In this conflict situation, the previously latent irreligiosity became manifest: nearly half the population of Czechoslovakia (56 % of the Czech society and 27 % of the Slovak population) became undenominational. Undoubtedly, the lack of religion on a mass scale is the most distinctly characteristic feature of the two countries' religious profiles. However, the shift in the proportions of the denominations is also noteworthy (Kucera 1994, Scitánie 1924; 1934; 1957; 1992;

Srb-Andrie 1994). The Catholic predominance increased to an unprecedented extent over the past forty years (see Table 3).

Hungary

The percentage of Catholics has been gradually growing to the detriment of Protestants for over a century now. This tendency applies to both pre-Trianon and post-1920 Hungary. Decennial censuses between 1869 and 1910 show 254.8, 262.9, 272.1, and 280.5 Catholics for every 100 Protestants. The denominational distribution of the dismembered country considerably differed from that of former Greater Hungary (first of all, in the almost complete lack of Orthodox Christians). The tendency, however, remained unaltered. The decennial census figures in the post-Trianon Hungarian territory show a rise from 233.8 Catholics for 100 Protestants in 1910 to 243.9 in 1920, 248.9 in 1930, 254.5 in 1941 and 260.1 in 1949 (Kovacsics 1963). The trend continued after 1949. A comprehensive data analysis for the 80s involving an aggregated sample of 100,000 persons revealed 280.7 Catholics for every 100 Protestants (Tomka 1994). The survey of the Central Statistical Office (KSH) conducted in 1992 also to obtain information about denominations found a lower rate of 270.5. However, this research was not extended to the Greek Catholics, possibly subsumed under the category of 'other' (Bukodi-Harcsa-Reisz 1994). If the KSH figure is accepted, it also confirms the tendency outlined. This applies even more pronouncedly to the denominational research initiated by Parliament and the Ministry of Culture in 1992, whose empirical survey showed 357.7 Catholics for every 100 Protestants (Kozma *et al.* 1994).

The Hungarian investigations not only document the growth of the Catholic preponderance but also inform researchers about its demographic and cultural nature. A comparison of the denominational structure of different age groups reveals that when a change of generations takes place, different churches retain their congregations to varying degrees. Both the survey of the 80s and the one conducted in 1992 show that with the decrease of age the percentage rate of Catholics increases and that of Protestants decreases. By comparing the data for the 80s and 1992, it can be found that not only those professing no religion or denomination rise in number, but the differences between the denominational structures of various age groups also increase. In the 80s, the predominance of Catholics was 'only' 1.13-times higher in the youngest age group than in the oldest. By 1992, the social share of every denomination had decreased. Within this tendency, however, the Catholics outnumber the Protestants 1.19-times more among the youngest than among the oldest (Table 4).

Table 4 **Denominational distribution of the Hungarian society by age group**
a) average of the 80s and b) in 1992 (%)

Denomination	18-29	30-39	40-49	50-59	60	18-29 as a percentage of those 60+
	years of age					
a)	N= 24,896	19,367	16,703	15,877	19,122	
Catholic	69.5	71.8	72.3	71.8	71.5	97.2
Calvinist	19.5	21.2	22.0	22.2	21.4	91.1
Lutheran	3.3	3.9	4.5	4.7	5.1	64.7
Other	0.3	0.3	0.5	0.7	1.4	21.4
No denomination	5.9	2.3	0.5	0.4	0.3	1966.7
Unknown	1.4	0.5	0.2	0.2	0.3	466.7
Total	100.0	100.0	100.0	100.0	100.0	
Catholics as % of Protest.	304.8	286.1	272.8	247.5	269.8	
b)	N= 29,000					
Catholic	61.3	67.3	67.0	69.1	68.8	89.1
Calvinist	18.0	20.3	22.3	22.3	22.5	80.0
Lutheran	3.0	3.3	4.2	5.0	5.5	54.5
Other	1.8	2.7	2.8	2.5	2.9	62.1
No denomination	14.1	4.4	1.8	0.5	0.4	3535.0
Unknown	1.8	1.9	1.9	0.7	0.7	257.1
Total	100.0	100.0	100.0	100.0	100.0	
Catholics as % of Protest.	291.9	285.2	252.8	253.1	245.7	

Sources: a) Tomka 1994; b) Bukodi-Harcsa-Reisz 1994.

The fact that those professing to be Catholic represent the overwhelming majority of the population obscures some minor differences. It seems of secondary importance whether the average share of Catholics in groups of educational levels was 69 or 72 % in the 80s. Actually, the European tendency showing the decrease of the share of Catholics with the rise of the educational level can also be demonstrated here. As regards their position in social competition, this 'lag in culture' is not negligible.

The differences are more pronounced if we approach the question from the other side, and especially if we take a look at the two Protestant churches separately. Although everyday experience suggests that the upward mobility of Calvinists may assure them significant public and political presence, an examination of schooling indicates that the Calvinist population is not only aged well above the average but also that their presence is more marked in low educational groups. By contrast, the adherents of the Lutheran church, known to have an urban and middle-class basis, have a higher share of tertiary education graduates than of people with low schooling (Table 5).

Table 5 **Denominational distribution of groups in Hungarian society by level of education (%)**

Denomination	School education					Tertiary educ. as a percentage of 8-graders
	Less than 8 grades	8 grades	Secondary school	College, univ.	Total	
N=	23,629	43,103	20,630	8657	96,019	
Catholic	72.1	71.8	70.3	69.2	71.3	95.9
Calvinist	22.7	21.6	19.1	19.4	21.1	85.6
Lutheran	4.3	3.7	4.8	5.4	4.3	123.7
Jewish	0.2	0.3	0.5	1.0	0.4	615.9
Other	0.2	0.2	0.4	0.4	0.2	153.2
No denomination	0.2	1.8	4.3	4.4	2.2	1834.1
Unknown	0.2	0.6	0.6	0.2	0.5	116.2
Total	100.0	100.0	100.0	100.0	100.0	
Catholics as % of Protest.	267.0	283.8	294.1	279.0	280.7	

Source: Tomka 1994.

The KSH figures for 1992 show a rise in average educational level and an unchanged denominational situation. Differences in educational level are naturally reflected by the varying chances of launching a career and by the occupational structures. In groups of leaders, intellectuals and other white-collar workers the non-religious have a particularly high share. Differences by denomination are also manifest. Lutherans are overrepresented among intellectuals and other white-collar workers while Calvinists (and Catholics) are underrepresented. In 1992 23.5 % of the Lutherans, 21.7 % of the Catholics and 19.7 % of Calvinists (as against 29.1 % of non-religious people) began their careers as white-collar workers (Bukodi-Harcsa-Reisz 1994).

The topic studied has another important dimension to it which has been ignored so far. What does denominational identity mean? So far it has been tied to two things: self-reporting, that is, what religion the respondent professes to have, and the practice of religion according to the ritual of one or another church. It is instructive to compare the two approaches. This helps clarify the question whether denominational identity means exclusively the affiliation with a certain religion, or it also implies a cultural self-interpretation partly independently of religiosity. Another question it touches on is whether the subjective criteria of self-definition are identical in different denominational subcultures.

Table 6 **Distribution of denominational groups by manner of religious practice (%)**

Manner of religious practice							
Denomination	Through church		Own way	No practice		Unknown	Total
	Regularly	Rarely		Believer	Non- believer		
Catholic	15.1	22.6	9.9	30.4	19.2	2.8	100.0
Calvinist	8.2	19.7	12.8	30.9	24.2	4.3	100.0
Lutheran	10.3	21.5	11.4	32.5	20.5	3.7	100.0
Other	29.8	9.8	9.8	30.1	18.4	2.1	100.0
No denomination	0.4	0.4	0.7	5.9	84.9	7.8	100.0
Unknown	1.1	2.6	0.8	8.4	35.0	52.1	100.0
Total	12.7	20.6	10.0	29.0	23.6	4.0	100.0
Catholics as % of Protestants	476.9	305.2	212.8	263.5	219.0	180.1	

Source: Bukodi-Harcsa-Reisz 1994.

Several basic facts can be inferred from the KSH figures (Bukodi-Harcsa-Reisz 1994). First, in one-fifth of the cases, denominational identity is clearly not equivalent to religion but means the determination of a secular (not religious) cultural place. Secondly, both regular religious practice and adherence to the church characterise Catholics in the first place, being rarer among Lutherans and even less frequent among Calvinists. Thirdly, a Catholic's self-identity is more religious than a Lutheran's and even more than a Calvinist's. This statement can be quantified if within the social groups differentiated by religiosity and irreligiosity, and religious practice, the size of the Catholic population is defined in percentage of the Protestants. Among those practising their religion within their church regularly this proportion is more than twice that of those who practice their religion in their own way or in no way at all (Table 6). Practically the same conclusions can be drawn if denominational identity is examined by increasingly stricter criteria of religiousness (Table 7).

Table 7 **Denominational distribution of groups professed to have varying degree of religiosity (in %)**

	Criterion of group's religiously			
	Entire society	Religious in one of many ways	Overtly religious	Religious 'according to the teachings of church'
N=	96,019	35,628	19,323	8100
Social weight of group (%)	100.0	59.5	40.3	13.5
<i>Denomination</i>	71.3	75.1	77.0	78.6
Catholic				
Calvinist	21.1	19.2	18.1	15.5
Lutheran	4.3	4.4	4.2	4.6
Jewish	0.4	0.3	0.1	0.2
Other	0.2	0.4	0.3	0.9
No denomination	2.2	0.5	0.1	0.2
Unknown	0.5	0.1	0.2	0.1
Total	100.0	100.0	100.0	100.0
Catholics as % of Protestants	280.7	318.2	345.3	391.0

The starting point can be the entire population with the question of religiousness or irreligiousity being left open, as earlier experience has shown that denominational identity may exist independently of religiosity. A group smaller than the entire population - 59.5 % of it in the 80s and 72-73 % in the 90s - is constituted by those who claim to be religious in some way, aware of the fact that there are innumerable forms of religiosity. (The social-cultural characteristics of this group are most diverse. As for research technique, this group can be formed by adding up those grouping themselves with any point of a multiple-choice religious typology survey.) The members of the third group claim to be religious without reservation, limitation or explanation. Their rate in the 80s was 40.3 %, and 45-50 % in the 90s. (Methodologically, this group results from the dichotomous yes-no-type answers.) Finally, a small group - 13.5 % of the society in the 80s and 15-17 % in the 90s - say they are religious 'according to the teaching of the church'. The groups listed are not the outcome of preliminary theoretical considerations. The logic of their formation is not perfectly consistent. In spite of that, they help differentiate various segments of society in a way that is relevant for the denominational structure. The comparison of groups thus compiled reveals that the more rigorous the criterion of religiosity, or the narrower the group 'religiousness' is applied to, the higher the rate of the Catholics in comparison to Protestants (see Table 7).

Interpretation

Researches into denominational structure reveal two tendencies which mutually weaken each other. On the one hand, the share of Catholics is increasing within Christianity all over the world (Barrett 1982), and owing to numerical decrease, Protestantism is threatened with extinction in places (Bauberot 1988). On the other hand, the differentiating role of the denomination is weakening. Various major international comparative researches, including the European Value Study (Barker-Halman-Vloet 1992; Ester-Halman-Moor 1994) and the International Social Survey Project (Greeley 1992) bear out that religiosity-non-religiosity (especially church membership) is a significant determining factor of society and behaviour, while the determining power of denominational identity has been decreasing almost to the verge of disappearance. (There is unfortunately no space here to discuss the theoretical contradiction in the phenomenon.) Modern industrial society seems to dissolve the traditional denominational subcultures (but not the large regions designated by the major world religions). It is not impossible that modernisation will lead - inevitably - to a similar result everywhere. East Central Europe is still far from this outcome, but it cannot be proved that we are not progressing in the same direction. Quite the contrary. The transformation of the denominational structure can also be interpreted as the emergence of the religious market (Iannaccone 1992). This conclusion is especially feasible when not only the historical churches but the new religions and sects are also taken into account.

The post-war four decades, so specific in this region - transformed the denominational structure more substantially in Eastern Europe than elsewhere in Europe or the world. Loss of religion was far more extensive than anywhere else. It shrank the Protestant churches in the first place, decimating them far quicker here than elsewhere. The question is whether it is possible to formulate - no matter how hypothetically - at least a seemingly tenable explanation.

There is a traditional 'explanation' in Hungarian society, one also discussed by the literature in detail: notably, the lower birth rate among the Calvinists and Lutherans - perhaps connected to the Protestant ethic (Pezenhoffer 1922). That, however, is not a true explanation but the replacement of an unknown by another unknown. Yet nothing contradicts this extrapolation of historical experience. The problem is that a lower Protestant birth rate can hardly explain a denominational landslide of a magnitude and speed characterising the Czech Republic or Latvia. The fertility of a denomination can therefore only explain a part of the changes in proportions.

Another hypothesis also formulated in the Hungarian context is that the forceful modernising attempts of the one-party state had the most devastating effect on the social-cultural medium of the small and middle peasantry a significant part of whom were Calvinists. According to the hypothesis, this group was therefore most intensely motivated to move and secularise. This, however, needs to be verified in Hungary, too. It is strongly questionable if it can be applied to Czechoslovakia and Latvia.

Even more limited research material is available to prove the assertion that the presumably greater affinity of Protestant culture and the Protestants as a social group to the socialist-communist movements is the real cause of the erosion of religiosity and the loss of denominational identity. There might be speculative grounds for pointing to the individualistic nature of Protestantism, to the allegedly more extensive uprooting of social and cultural traditions in this group and to the similarly alleged stronger 'Protestant social sensibility', yet all this, similarly to the supposed greater share in the leadership of the one-party state, remains hypothetical awaiting empirical verification or refutation.

At the 23rd World Congress of the Sociology of Religion (Quebec City 1995) another possible approach to the question arose. In the world historical process of modernisation, Protestantism is way ahead of the Catholic culture and population. From this starting point, two diametrically opposed prognostications can be reached. It can be argued that the drop in the number of Protestants over the past few decades is simply the outcome of accelerating modernisation, and the same tendency will soon prevail among the Catholics as well. In this interpretation, the Catholic church is simply lagging behind.

The American statistical data cited in the introduction suggest an inference to the contrary. It might be the 'conservatism' of the Catholic church (tighter communal and organisational order, stronger social control, anti-individualism, more explicit dogmatic order, the emphasis on the primacy of the supernatural mission, etc.) that explains the tighter grip on its believers. Of course, that is also a mere research hypothesis. Checking this hypothesis, however, promises exciting research possibilities. The shift in the denominational structure to the benefit of Catholicism is a hard fact of social statistics, after all.

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LOCAL REVOLUTION

Self-organisation in the village of Nógrád in 1956¹

By 29 October 1956, revolutionary councils had emerged under different names in only six villages of the Rétság district of Nógrád county. All six villages are along the Vác-Balassagyarmat railway line which also touches on Nógrád. Owing to their geographical position, these villages had already opened out at the beginning of the century, sending dozens of commuters - rising to hundreds in the 50s - to the factories and plants of nearby towns (especially Vác and Budapest). Their society gradually changed, with local railwaymen's communities emerging and strengthening in each of the six villages.

In this paper, an attempt is made to define the main dynamic factors of the events, the major motives of the actors, the operative intentions and wills in the revolutionary events of a small village in Nógrád county.

The major conclusion of the research is that in the six villages concerned, the revolutionary self-governing bodies were set up exclusively from their own energies, determined by the personalities, goals and information networks of the actors. No order or directive from above or from outsiders was involved in these cases.²

One of these villages is called Nógrád.

Information network, locality, dynamics of action

Most fresh news from the outside arousing interest inside was mediated by the railwaymen and commuters working in the factories of Budapest, Vác and Dunakeszi.

They included Sándor Haász, 24, a track-repairer at Budapest West Station and János Srám, who worked at the MÁV (Hungarian State Railways) plant in Vác at the time of the revolution. János Hébel, a worker of the Dunakeszi plant, later became one of the prime movers and organisers of the local events. Apart from the events he witnessed and the information he heard, other main motives of his role-taking must have been his past as a social democrat, the withdrawal of his working permit in 1950, his trial in 1954 ending with a sentence, and the public activity of his father-in-law, who was the president of the national committee of the village during the coalition period.³

The first segment of the information network thus comprises the centres of forces and models whose revolutionary events reached the village sphere via personal mediation. In the case of Nógrád, this role was played, besides Budapest, by the early and vigorous events of Vác where the villagers went to shop. (The district seat, Rétság was only a village of about 1000 inhabitants, where the slow power erosion of the local centres of force - the district council, the party

committee, the police and the armoured battalion - only allowed for the formation of the Provisional District Revolutionary National Council in the early morning of 29 October.)

Besides personal experience, the radio conveyed the most information to the village. Until 28 October, Kossuth Radio aired the news and commentaries of the government which was engaged in armed conflict with the insurgents and declared the majority of events to be counter-revolutionary. The polarising duality of the consequent 'legimation trap' can be shown for Nógrád as well: on the one hand, the slogan "Long live the students, the radio is lying" was already included in the demonstration of 26 October, and on the other, the participation and role of the president of the Popular Front in electing the revolutionary council proves the search for legitimisation, as will be shown.

Radio Free Europe played an important dynamising role in the rural events but its extent has still not been determined. As the broadcast material is not available for this research, one can only register its large audience.

The spread of the news within the village also meant the evolution of the events, of the idea of demonstrating, the selection of the leaders and their propulsion to the centre of events. This process can be comprehended by a local overview (Figure 1).

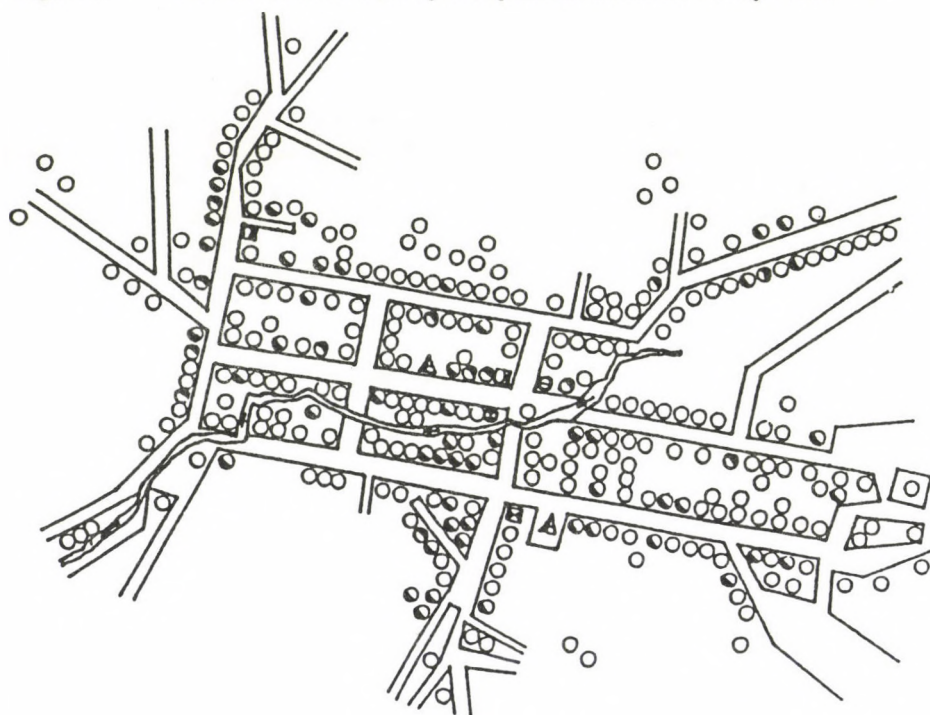
Increased density in the Figure signifies the closer contact among those living next door or close to each other. As the map suggests, their exchanges of news and opinions must have contributed significantly to the subsequent events. Visits to neighbours and relatives - more frequently than usual - all gave impulses to take on certain roles.

Another venue of comparing wills and intentions further away from the intimacy of the family household was the wine-house or wine cellar which in October, after the vintage, was a forum of meetings by friends and relations. Our respondents also recalled these gatherings with much wine, heated debates, and the confrontations of sober opinions.

There are certain public buildings in the nodes of density.

The pub had been a traditional centre of public affairs, of the political self-expression of the village. This function came to an end in the fifties when it became almost exclusively a place of entertainment and drinking. This time-honoured institution was again made the centre of information and local exchange of news by the revolutionary upheaval of 1956. Numerous documents reveal the revolutionary atmosphere seething in debates and the narration of experiences in the pubs of the district. These gatherings often changed into spontaneous demonstrations, followed at times by iconoclastic events and book burnings. These actions are none other than the repetition on a smaller scale of events, behavioural forms and attitudes witnessed or experienced in the model centres, often rethought, severally narrated and embellished. This was prepared by the pub discussions among 'socialising' men which motivated them and politicised their environment.

Figure 1. Residence of the active participants in the revolutionary events⁴



Legend:

- Participant of Lutheran religion
- Participant of Catholic religion
- ▲ Church
- ▤ Pub
- ⊞ Council house
- ⊗ Cultural centre

The railwaymen and factory commuters returning to Nógrád also shared their views and experiences in the pub. That was where railwayman János Burik distributed among his friends some copies he had brought with him of the Sixteen Points, laying the amorphous but existing ideological foundations of the local events. The organisers so far forming smaller groups also met here and designed the choreography of the demonstration of 26 October.

Another major centre of information exchange was the church. Villagers attending the evening litany exchanged their news, learned the opinion of the parish priest and their 'men-of-the-world' fellows. Relatives living far apart could also meet and compare their news and opinions in church. The parish representatives also discussed the events at the vicarage. Having considerable prestige, they had a significant role in shaping the local public opinion (and, as will be seen, the flow of events as well).

The council house became a major venue of events on account of its location and function. Those living in its vicinity kept watch on the events, and before the demonstration some of the people gathered there and demanded the release of the documents concerning compulsory delivery of produce (in Nógrád these records escaped annihilation, owing to the good organisation of events).

The packed hall of the cultural centre was the venue for election of the revolutionary council members.

The organisers

It is not possible to identify exactly all the masterminds of the demonstration and the series of events, but some portraits of people who definitely played some leading role should be added to that of János Hébel.⁵

- Márton Molnár (aged 49 in 1956, a medium-scale farmer cultivating 17 cadastral acres), a converted Catholic member of a large Lutheran family with extensive landed property, who became a member of the vestry, then from 1940 an elected representative. He headed the pasturage committee and the common land committee. Despite his past in the Small-holders' movement, in 1950 he became a member of the EC of the village council and the district council, holding these posts up to 1956. However, in 1956 he faced a series of conflicts. He was constantly in arrears in the compulsory delivery of produce, he stopped attending the council meetings, and finally, alone in the village, he refused to deliver produce, and in September he was summoned to give account. On 27 October he was elected to the national council.

- János Pásztor was a close kin to the last judge of the village, and the council president of the 50s was the brother-in-law of his wife. He first joined the National Peasant Party, then the Hungarian Democratic Party, holding various posts until 1951. He was president of UFOSZ (National Association of New Farmers and New Landowners), then DEFOSZ (National Association of Working Peasants and Cultivators), and member of the national committee and the council of representatives. Then, however, his career was broken: in 1951 he gave up his trade, in 1954 legal procedures were initiated against him for a plan violation, and his brother Vince was declared to be a kulak. Despite his initial participation, he was not elected into the revolutionary bodies, but he remained the president of the reorganised UFEK (Forest Community of New Farmers and New Landowners).

- Ferenc Bajnai, born in 1932, was working for MÁV. In 1952 he chose to withdraw from being nominated to party membership. His brother was a council member in the first council term, János Pásztor (above) was his uncle. In the early 50s a sharp personal conflict evolved between him and the party secretary of the village, which strongly motivated his role-taking. He became a member of the national council and commander of the national guard.

- Ferenc Ádám, 24, a forester - his father was the forest warden of the forests of the diocese - became the village president of MÖHOSZ (Hungarian Voluntary Defence Association) in 1956. During the revolution, he was elected to the national council and the 16-strong national guard.

- Sándor Polyák was one of the oldest among the active participants. He cultivated 14 cadastral acres and became a member of the council of representatives already in 1941, becoming the treasurer of the local authority in 1944. He was taken to the Soviet Union as a POW. In 1951 he was elected to the peace committee, but later he did not hold any posts. In 1954, he was brought to court for economic matters. He was only called to a public office again in 1956, when he became a member of the committee of summary offences. On 27 October he became the president of the nominations committee and a member of the national council. (About the Piroska and Rottek families, see later.)

The events

On 26 October the organisers of the demonstration who had stayed at home waited out their comrades coming from work. The crowd gathering in front of the FMSZ pub only set out for the council house at 7 p.m. They called on the EC secretary to join them and then went on to call the council president, party secretary, director of the cultural centre, president of the agricultural cooperative and the accountant, two former MDP (Hungarian Workers' Party) secretaries and the official in charge of compulsory deliveries. (In the interviews it could not be made quite clear what the aim of this action was: some interpreted it as a gesture of forgiveness, the majority saw it as a punitive element.) The demonstrators also passed by the party office where they destroyed communist symbols and books. Back at the council house, a young worker István Piroska jr. read the Sixteen Points and called on everyone to refrain from revenge or extremist action. Finally, after singing the National Anthem, the crowd dispersed.

The demonstration involved several hundred people, about a quarter of the population, with the others watching the passing crowd outside their gates, as is customary in villages. The primary significance of the action was that it made everyone aware of the nature of the revolution, and showed up the participants, the organisers in the vanguard, the contents and main aims of the revolution. With this rite, the community itself became initiated into the revolution. The election was also preceded by a certain co-ordination of views.

The organisers going from house to house calling the people to a general assembly had the opportunity to influence the events by determining the direction of the conversations, mentioning certain persons, leaving out some families, households, relations. These invitations, however, also served to co-ordinate interests and opinions. These conversations helped to formulate and reveal numerous ideas, which were then manifested in the composition of the nominations committee in the first place.

The elections were determined primarily by the 'trap of legitimization' already mentioned. "On behalf of the Nógrád branch of the Patriotic People's Front, and at the appeal of the government, we have summoned the workers of Nógrád to elect a workers' council to join the village leadership until the legally announced new elections," said the president of the People's Front in his introduction.⁶

His involvement itself implies continuity, a search for legitimization. Also, it was obvious that the government's appeal applied only to the industrial workers' councils while the so-far established organs of local self-rule were still illegal organisations in the eyes of the government. The peculiar turn in the cited text was meant to bridge the gap in legitimization.

The president of the People's Front had only a sort of advisory committee in mind, but those present already superseded the will 'to preserve and change': they decided to eject the representatives of the party and the EC from the nominations committee. The inner dynamism of the crowd, the escalating atmosphere, the powerful speeches of the spokesmen propelling the events and intentions transcended the question of legitimization, and the situation was solved by the volitions that had been maturing and were shaped on the spot according to a new, revolutionary principle. They persuaded the council leaders to resign and elected a new revolutionary council on the preliminary recommendations of the nominations committee.

The eight-member revolutionary council, however, was only a provisional, transitional body: at the first meeting after the elections, they coopted another thirteen members. The National Council of Nógrád implied a duality even in its name. It alluded to the national committees in the coalition period on the one hand, and to the changed conditions of the fifties, on the other.

The external news and local opinions motivated the participants within the internal spaces and institutionalised forms of communal existence (relations of kinship, friends, neighbours, job, and principally family-household). Obviously, the chances of getting information and taking part in the action were not equal. They encouraged some groups and individuals more powerfully than others to act, complementing their volitional-emotive motives rooted in their individual life-paths. The inclusion in an elected organ, however, did not merely depend on the will of the individual to play a role, but required acceptance by the community, competence for the task, the appropriate background of friends and relatives.

These were the main points of view in examining the motivational basis of the participants, trying to find the principles and factors that promoted an individual to a position of forming or representing the community.

The sample

Various types of documents enable the scholar to take a full sample and differentiate the various participants of the revolution in Nógrád. These participants include the organisers of the events, the members of the nominations committee, the revolutionary and national councils, the national guard, and all those who played a decisive role in any of the events related to the revolution.

The sample thus created comprised 78 persons. All the members could be identified, nearly all the personal particulars and major details of their life-paths are known.

This database is the foundation of the investigation.

Age, occupation⁷

The distribution of the total male population and the sample by age and occupation is summarised in a table:

Table 1 Male population of Nógrád and the sample by occupation and age

Age group	F		L		R		A		O		Ta	Pa
	T	P	T	P	T	P	T	P	T	P		
15-19	18	-	23	2	10	1	-	-	21	1	72	4
20-24	5	-	52	7	12	2	2	-	19	2	90	11
25-29	7	1	47	8	18	1	2	-	29	1	103	11
30-34	17	3	33	5	21	6	3	1	12	1	86	16
35-39	8	5	5	-	19	3	6	1	13	-	51	9
40-44	21	4	9	-	13	2	2	-	7	1	52	7
45-49	39	8	9	1	19	3	3	1	6	-	76	13
50-54	35	2	10	-	6	-	6	-	3	1	60	3
55-59	31	2	10	-	4	-	1	-	10	-	56	2
60-	74	1	2	-	-	-	3	-	22	1	101	2
To	255		200		122		28		142		797	
Po		26		23		18		3		8		78

F: farmer

L: industrial labourer

R: employee of the railways

A: artisans and their employees

O: other occupations

T: total number of males by age and occupation

P: number of participants (sample) by age and occupation

Ta: number of males by age group

Pa: number of participants (sample) by age group

To: number of males by occupation

Po: number of participants (sample) by occupation

As the table shows, the farmers - though the largest single group in the society of Nógrád - did not play an unambiguously dominant role. In 1950, a mere 200 villagers of both genders worked with the Railways and in industry,⁸ while in 1956 they made up nearly half the village population of 1900. The number of male labourers was close to that of the peasants. Apart from them, many found work in other places.

The age bracket of those below 30, born between 1927 and 1936 is numerous and compared to their advanced age, so are those born between 1907 and 1912. The smallest age group contained those born between 1912 and 1921, that is, in the period including the war years.

Occupations are partly correlated with the age groups. This is most sharply shown by the groups of peasants and labourers. The age composition of the railway workers reveals that the first larger group to seek employment outside the village was hired by the Hungarian Railways.

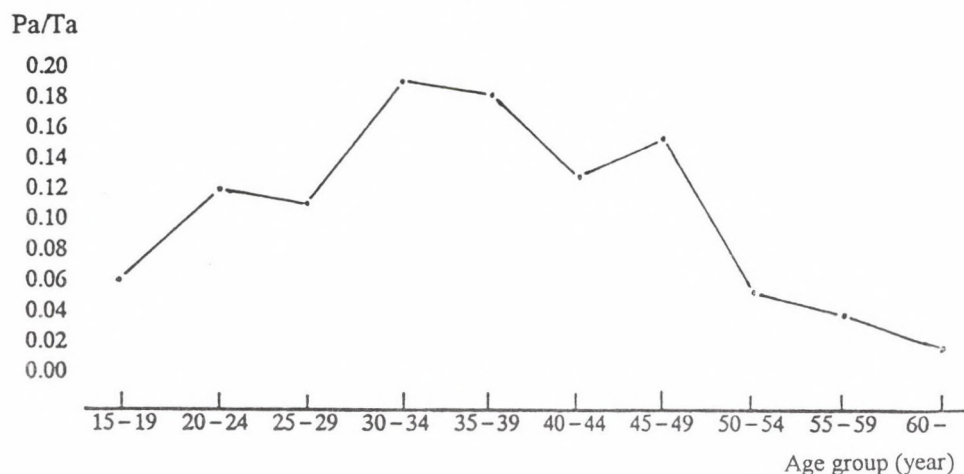
All in all, a tenth of the male population of the village took an active share of the events of the local revolution (78 out of 797).

The activity of each age bracket is indicated by the ratio of the participants by age and the total of male villagers by age (Pa/Ta):

Table 2 **Rate of participants by age group**

Age group (year)	15-19	20-24	25-29	30-34	35-39	40-44	45-49	50-54	55-59	60-
Pa/Ta	00.6	0.12	0.11	0.19	0.18	0.13	0.17	0.05	0.04	0.02

Figure 2: **Rate of participants by age group**



Compared to the population size of their own cohorts, the highest rate of participation in the revolutionary events was among the 30-39-year-olds, especially among those aged 30-34. Most of the latter were young married couples with two or three children and living with their parents. They adopted the family traditions, roles and motivations most closely, since after the departure of their siblings, they were left to help their ageing parents who were mostly farmers.

The cohort of the 45-49-year-olds provided an almost identical rate of participants. This cohort contained self-employed farmers, family heads who had filled some important public or political post in their lives. In 1956 nearly all lived

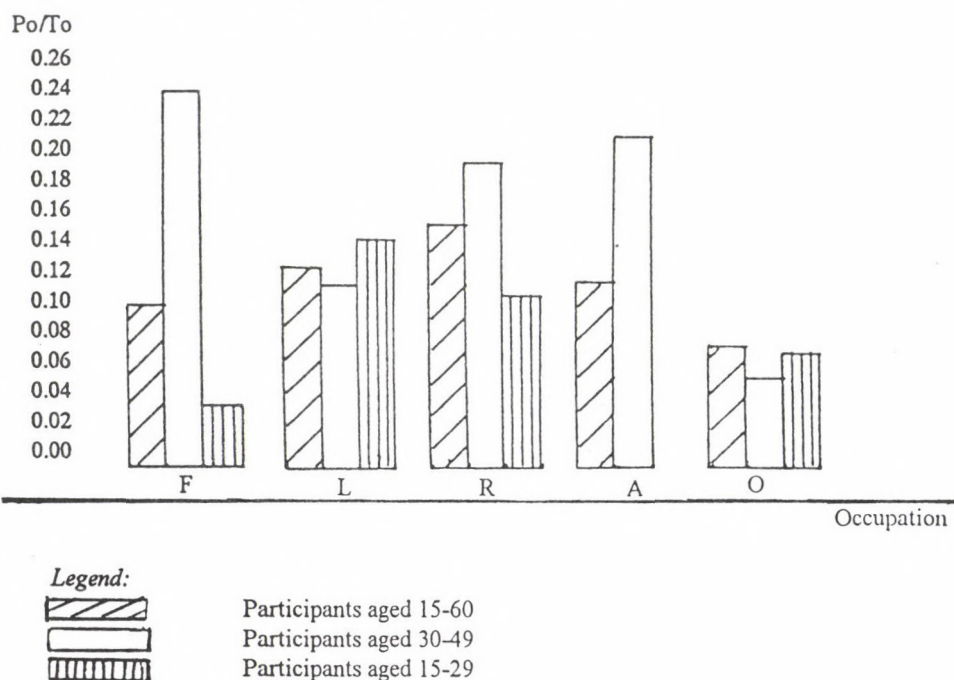
together with some of their children, single or married, in the same household. (Among those already introduced, János Hébel, Márton Molnár and János Pásztor belong here. This group also included the president of the national council, István Piroška and two of its members, József Czerman and András Molnár, as well as the teacher Pál Németh, who was to have been elected notary on 27 October.)

The distribution of the sample by occupation is interesting. The degree of activity (Po/To) varies greatly by age group clusters.

Table 3 Rate of participants by occupation

Occupation	Age group								
	15-60 years			30-49 years			15-29 years		
	To	Po	Po/To	To	Po	Po/To	To	Po	Po/To
F	255	26	0.10	85	20	0.24	30	1	0.03
L	200	23	0.12	56	6	0.11	122	17	0.14
R	122	18	0.15	72	14	0.19	40	4	0.10
A	28	3	0.11	14	3	0.21	4	0	0.00
O	142	8	0.06	38	2	0.05	69	4	0.06

Figure 3 Rate of participants by occupation

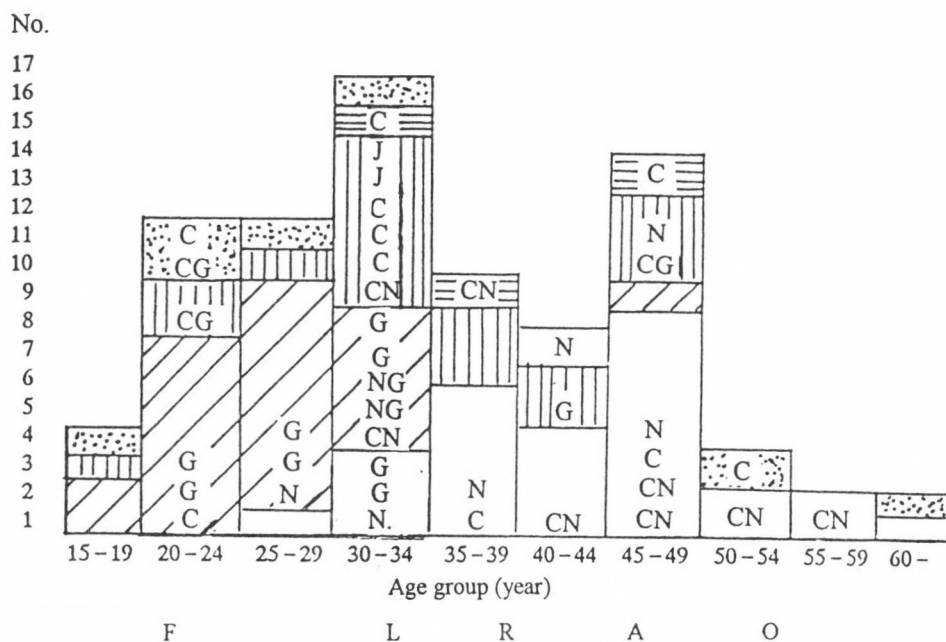


In the sample, the most active occupational group was the railway workers (0.15), followed with almost identical figures by the peasants (0.10), labourers (0.12) and artisans (0.11), while the high degree of passivity in the group of other occupations is conspicuous.

The Pa/Ta quotients of the cohorts above fifty (0.05, 0.04, 0.02) show that in older age groups the public activity largely decreases in every occupational group. If they are disregarded, the rates of participation by occupation change greatly. Among those below fifty, the farmers come to first place (0.18), especially in the age groups of 30-49 (0.24). In this way, only in the youngest generation (aged 15-29) did the activity of the labourers top the list.

A more subtle picture of the sample is gained if the distribution by age and occupation is summarised on the basis of Table 1.

Figure 4 Number of participants by occupation and age



Legend:

C: member of the national council
N: member of the nominations committee
G: member of the national guard

(Horizontal letter sequences refer to one and the same person.)

The columns of the figure contain the occupational distribution of an age group.

The most characteristic group of participants comprised industrial labourers below 35, most of whom had little political experience but the protagonists of the events came from their large subgroups. As for the railway workers, similarly to the peasants, the middle-aged between 30 and 39 were the most active. It can be seen as a tendency that the farmers aged 30-49 who traditionally played a decisive role in the public affairs of a rural community were also massively represented among the revolutionary actors.

Certain age groups are conspicuously largely represented, including the farmers aged 35-39 and 45-49, and the railwaymen aged 30-34 providing four members for the national council. The solidarity implied by friendship and peer pressure is the easiest to detect among them.

Size of land holding⁹

A traditionally central determinant of the value relations of a rural society has been the size of the land holding. A large land holding by local standards increased the prestige not only of the family head but also of the entire family and influenced their position in the village society. It also determined the family's way and form of life, and the potential individual life-courses. Land-owning families not only had a peculiar and strong sense of coherence and awareness of kinship relations, but usually also assumed communal roles often for generations.

For these reasons the size of the land holding per villager was examined. Two approaches were applied:

- first, in Figure 5, the land holding of each of the sample members is indicated,
- second, in Figure 6, the land holding of the father or father-in-law is indicated for those who had no land of their own (combined land holding).

Figure 5 Size of own land holding of participants by occupation and age

Age group					
60-	O		F		
55-59				OF	
50-54	OF		F		
45-49	AF	RRL	RFF	FFF	OF
40-44	ORRFF				FF
35-39	ARRRF	FF		F	F
30-34	OARRRRRLLLLLFF	RF			
25-29	RLLLLLLLLF		O		
20-24	ORLLLLLLLL				
15-19	ORLL				
	0 cad. acre	Larger than \			
	Landless	1 cad. acre	5 cad. acre	10 cad. acre	15 cad. acre

Legend:

F: farmer L: labourer R: railwayman A: artisan O: other

Figure 6 Combined land holding of participants by occupation and age

Age group					
60-55-59	O		F	FF	
50-54	O	F	F		
45-49		RRL	ARFF	FFFF	FF
40-44	OF	RR	F	F	F
35-39	F	ARRF	RF	F	F
30-34	OLL	ARRRRL	RR	LF	LFF
25-29	OLLL	RLF	L	LL	L
20-24	ORRL	L	LLL	L	
15-19	OL	R		L	
	0 cad. acre Landless	1 cad. acre	Larger than 5 cad. acre 10 cad. acre 15 cad. acre		

As Figure 5 reveals, 61 of the 77 participants had land holdings of less than 5 cadastral acres, and only 16 had larger holdings. The second approach shows a relatively even distribution of the two categories, with twice as many owners of more than 10 cad. acres.

The difference between the two approaches suggests that although half the participants originated from the formerly poorer groups of villagers, the other part lived in (or derived from) families with locally substantial land holdings in 1956 (in 1956, 290 persons had land holdings of less than 5 cad. acres and 131 had larger holdings). Their weight is enhanced by the fact that several land-owning families were represented by more than one, at times by 4 or 5 members, in the sample (e.g. the Rotters, Klucsiks or Molnárs). This fact necessarily modifies the emerging image of the ideal type of the revolutionary as a young labourer or railwayman working in town and stresses the motivational potential of the family background and origin.

The elected persons

The nominations committee was based on two age groups: labourers below 35 and peasants above 40. The latter is the largest single group of oldest age and largest land holding. Seven had holdings above 5 cad. acres individually and 14 of the 17 had this size of combined land.

Their recommendations, the village assembly and the ensuing cooption partly lowered the average age of the national council and partly made its combination more mixed. Three generations are markedly present: the decisive weight was represented by the 30-35-year-olds, especially the middle-aged railwaymen, then there were the representatives of the generations in their early twenties (the juvenile character of the events is due mainly to their presence), and the third group included those above 45 who had a considerable political past, not infrequently in the coalition or pre-war periods (nearly all also being members of the nominations

committee). As for occupation, the national council included a forester, a teacher and an army officer, six railwaymen, three artisans, seven peasants and two labourers. Only six of this group had land holdings larger than 5 cad. acres, and even when the combined land holding was taken into account, only an artisan and a labourer, as well as the 7 farmers exceeded this land size.

The data also reveal that inclusion in the national council depended on other factors (activity of participation, background of kinship-age-occupation, solidarity, the representational nature of the body) rather than on land size.

The youngest age composition was in the national guard, half of them being young labourers. None had any fortune of their own, and the father or father-in-law of only 5 belonged to the category of land holders above 5 cad. acres.

Family status, size of household

It is not by chance that there are hardly any unmarried men in the sample (Table 4). This possibly follows from the principle of social organisation which takes marriage as a main criterion of adulthood and an indicator of a person's capability of performing some function.

Table 4 Distribution of participants by family status

Family status	Occupation					Total
	F	L	R	A	O	
Single	-	6	1	-	2	9
Married family member	5	8	3	2	2	20
Married fam. head*	21	11	12	1	4	49

*By differentiating 'married family member' and 'married family head', the clerk must have registered relatives living at a single street number in common or separate households.

Typically enough, no single men were among the farmers and only one in the nominations committee, and two in the national council.

The motivating force of the broader family is obvious from the fact that nearly all the participants lived in families of intricate pattern involving several generations. In the village at that time 4.6 persons lived on the average at each street number. The same figure for the sample is 5.7!

It is instructive to take a look at those who kept aloof of the events. They included, for example, the 30 peasants under 30. Only 5 of them were married. They also included the young men who had finished school but had not found employment yet and worked in the family business.

More surprising is the absence of labourers above 35 and those pursuing some other occupation. The latter included the officials of the party and state organs, employees in commerce, and the local intellectuals. The largest single group is that

of the professional soldiers who mostly lived removed from the village in an isolated community and played little part in the local events.

Distribution by religion¹⁰

During the fifties, the emotional resistance of the community found its outlet in publicly avowed religiousness. Denunciations, repeated petitions by the party organisations reveal the cohering, opinion-forming role of the Catholic parish priest, or the reserved silent self-organisation of the economically powerful Lutheran community making up a quarter of the population: "The Lutherans continue to hold their religious evenings, which leads to the following: they do not take part in the news service, on party days they are like a swarm of bees - they stick together - not within the party or the Independent People's Front, but outside it. They refuse to take part in communal work, one can feel they withdraw from building socialism, they constitute, as it were, a state within the village state," the village clerk noted back in 1949.¹¹

Although the EC secretary's retrospective report overemphasises the role of the Catholic church leaders in organisation ("...prior to and during the revolution, dean Antal Bea moved about in the village more than usual, going from house to house, while dean József Csáki stood outside his gate accosting the passers-by and chatted with them"¹²), in actual fact they did not intervene in the events directly. Yet their opinions had a role, especially through the members of the representative bodies of the denominations. The Lutheran presbytery and the Catholic vestry often exchanged their views, so it was almost certainly not merely due to their authority that several members were included in the nominations committee and the national council alike: six of the presbyters are in the sample, three of them as members of the national council. The Catholic parish council also had three representatives in the body, so a sort of balance can be found in this regard.

Interestingly enough, Nógrád differs from the surrounding villages in that no religious symbols were put up in the school, and no grievances or slogans of a religious nature appeared in their documents.

The religion of 76 participants could be established. 64 were Roman Catholic and only 12 Lutherans, so they were underrepresented. In the nominations committee, however, the ratio was 12:4, in the national council 14:4. The role of the Lutherans was enhanced by their economic weight (the average combined land holding of the twelve participants was high, around 10 cad. acres each) and by the strong cohering force of their kinship relations.

Political attitude

The former non-communist political involvement or party membership was a frequent charge in the post-revolution reports of the Hungarian Socialist Workers' Party (MSZMP). The motivating role of this past was indeed demonstrable among the participants.

Very few were former, or still active, members of the MKP (Hungarian Communist Party) and MDP, or the agricultural cooperative. None can be found in the nominations committee, the national council and the national guard.

There had always been families of a firm and distinct political attitude and willingness to take on public roles, who were often each other's rivals joining different parties (the Klucsiks, Molnárs, Bangels, Dobos's joined the Small-holders' Party, the Czermans and Buriks aligned themselves with the Peasant Party, some of the artisans were social democrats, others joined the MKP). The four coalition parties were represented by the same number in the national committee and the local government. This fact itself enlarged the circle of the actors as it reshuffled the local political life compared to the pre-war state.

For lack of reliable sources, the question of political continuity could only be examined for the national council. Two members belonged earlier to the National Peasant Party, four to the Independent Small-holders' Party, one to the SDP. This circle could have been considerably extended if the political affinities of their immediate relatives had also been taken into account (e.g. the father of the president of the national council, István Piroška, a judge, was also the president of the Independent Small-holders' Party).

However, neither the recollections nor the documents examined inform us of the revival of party life or the conscious assertion of party interests, so it remains an open question what role this important factor may have played in the local events of 1956.

Public role - kinship motivation

The traditional rural community was organised along definite lines of cohesion. By the mid-fifties, these traditional factors had considerably slackened, yet they contributed to the shaping of the local events. This section analyses the role of kinship relations in forming the events.

Most of the sample belonged to some distinct but related groups of relatives, clustering around a few numerically large families playing important roles in the socio-economic life of the community (e.g. the Rotteks, Klucsiks or the Lutheran Molnárs). This important organising principle can be illustrated with some details of the Rottek family tree.

Figure 7 The family tree of the 'farming' branch of the Rottek family (indicating only the marriages within Nógrád up to 1956)¹³

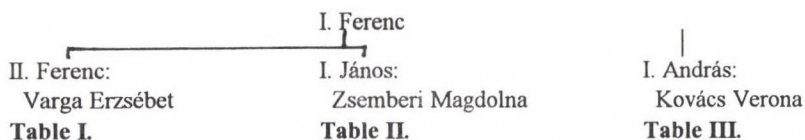
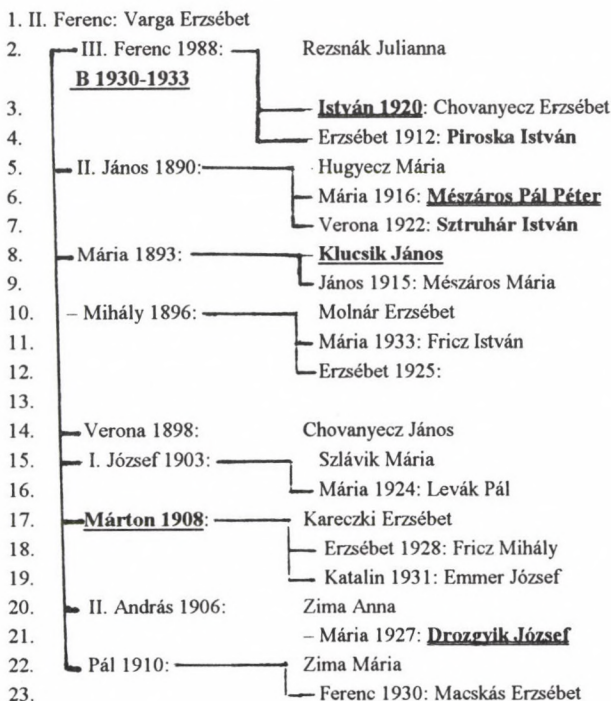


Table I.



1. Rezsónak József
2. Zima Ferenc

Table II.

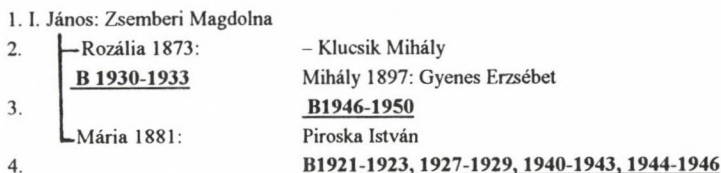


Table III

1. I. András: Kovács Verona	
2. <u>II. József 1874:</u>	Babicska Erzsébet
3. <u>III. József 1903: Mészáros Rozália</u>	
4. <u>Erzsébet 1909: Czerman Ferenc</u>	

Legend: member of the national council
twice underlined: member of the sample
underlined: e.g. B1930-1933 former judge

Over the decades, a distinctive local authority cycle evolved with the Catholic Rottek and the Lutheran Molnár families as the protagonists. It was by communal consensus that for three judicial terms (nine years) the Catholics provided the judges, followed by one term with a Lutheran judge. The family tree also shows that back to 1921 it was always the Rotteks or a close relative who held the post of judge in the Catholic periods. (The family tree does not include József Hugyec, the brother of Mária Hugyec in Table I, line 5 of the figure, who held this post in 1934-36.) István Piroska stands out with his four terms as judge.

Though this rhythm was interrupted in 1950, the above dynamism can be detected in the decisions taken in the fifties, too. Let us mention the most characteristic example with relevance to the present theme. Two sons of István Piroska, the judge, were included in the first council. Owing to his marriage, János came into conflict with his family, which loosened his family ties. He worked as a day-labourer for a long time, then entered the cooperative and the MDP. His younger brother, István remained a self-employed farmer, working on 10 cad. acres.

János became the president of the council and his brother was elected vice-president in 1952. In the former's absence, István headed the council for a short time in the following year. His humane measures at times violating the directives soon earned him popularity. His activity did not remain unpunished: the district leadership stripped him of his post for a statement of his that was declared anti-cooperative ("... the comrade party secretary failed to mention... when the maize was cut, though this piece of land was the heart of the village, incorporated in the cooperative,... that the army troops worked here a lot, so it was easy to make a gain by the work of others"). He was not even nominated into the second village council.

The Rottek family was then represented by a young car driver, Mihály Rottek (son of József III, in line 3 of Table III), who soon came into conflict with the local leaders: first he declined to agitate for the subscription to Peace Loan bonds, then he was the only member of the council to vote against the recall of two EC members.

Apart from the humane conduct and political competence of István Piroska and Mihály Rottek, their family relations, the former political dominance of their families must also have played a great part in their election on 27 October as president of the national council and, at 22, its secretary, respectively.

In addition to them, another three national council members were provided by the close kinship of the Rottek family, as the family tree shows, while another five members are included in the sample. The weight of the Rottek family is also demonstrated by half of the 8-member revolutionary council being provided by them.

The group of the participants belonging to this kinsfolk is spectacularly enlarged when the family tree is continued after the fourth generation as well and the degrees of relationship are extended. By way of an example, let some descendants of Mihály Klucsik (line 2, Table II) be detailed here.

Rottek Mária 1873:Klucsik Mihály

Mihály 1897: Gyenes Erzsébet Pásztor József: Gajdos Anna

B1946-1950

- János 1907: Karczki Mária

- Ferenc 1936:

----- spouses -----

- Mária

- István 1932

- Rozália:

Bertyák János

- Mihály 1923

- (Bajnai) Ferenc

1932

The intention to recreate a public function once held but often lost as a result of the political changes is a major drive of the individuals, too. A public post is itself an index of certain political affinities and aptitude. That is why the participants' past was examined from this angle.

Twenty-seven persons in the sample could be demonstrated to have had some public function up to 1956. (The circle could be considerably expanded here too if the immediate kin were also taken into account.) This is a high rate: one-third. The sample includes:

- three of the thirteen aldermen between 1940 and 1945 (juror János Klucsik, judge Márton Molnár and treasurer Sándor Polyák), as well as a former clerk of the district notary's office who returned to his former post after his dismissal from the council;

- another three local representatives elected in 1945 (thus altogether seven persons were involved directly in the work of the pre-war local authority);

- in another composition, a further four people from the local authority of the coalition times: two from the communist and two from the peasant party (a former Small-holders' Party member and a peasant party member in the national committee can be added to these);

- 10 out of the 42 ordinary and 20 substitute members of the first post-war council, and 7 (with some overlappings) of the 38 members of the second council (four of them were also elected to the national committee: István Piroska, József Czerman, Márton Molnár, Mihály Rottek);

- apart from the organs of the local authority, several of them were leaders or board members of various social or professional organisations and societies (e.g. Mihály Rottek was for a short time a board member of the district Federation of Working Youth, national guard József Szakállas was a leader of its local branch and of the sports club).

Finally, this section can be concluded with an example that will illumine most sharply the motivating force of family tradition. In the two Lutheran office terms of three years each the judge was József Molnár (the uncle of Márton Molnár already mentioned), a farmer holding 40 cad. acres of land. The term ended in 1950 with a Catholic judge.

On 26 October 1956, the eve of the demonstration, a nephew of József Molnár asked the village swineherd to declare him to be judge during the demonstration, in return for half a litre of wine paid. The herdsman complied, without success.¹⁴

Although it is impossible to reconstruct the event perfectly, the assumption may be permitted that it was an attempt to restore the interrupted historical continuity. The revolutionary situation encouraged the members of the once well-to-do and prestigious Molnár family to restore their former roles, a set of positions felt to be justly theirs, similarly to the Rotteks. It was possibly owing to the differences in the size and popularity of the two families, the divergences rooted in the past and in the personality of their outstanding scions that only a son-in-law of the Molnárs (and the Lutherans) - János Králik jr. - was elected a national council member, and it was only through subsequent coopting that others followed him.

Conflicts

Besides clashes caused by the disruption or distortion of the communally adopted structure of positions, a series of far more immediate grievances also burdened the society of the village in the fifties.

'Crimes' against the plan, economic offences of various type and motive, accidental or deliberate political confrontations entailed the growing awareness of opposing the situation or regime, while the antagonisms derived from personal grievances fed the emotive motivation.

The most serious grievances were undoubtedly suffered by the nine persons and families who were denounced as kulaks. Seven of them were not rehabilitated before September 1956. None took part personally in the revolutionary events, but the sample includes several representatives of various branches of the Lutheran Molnárs, the relatives of judge Mihály Klucsik, the younger brother of Vince Pásztor, János, and the son of József Dobos, János, who became a member of the nominations committee.

In Nógrád, the spectacular violation of the principles of traditional morals, property rights, and social organisation caused the strengthening of communal solidarity. Signs of this were the blocking of the organisation of the cooperative by the rigid resistance of the community of farmers and the complete withdrawal from public functions. "In the council election, the capable refuse to take on any function," the village party secretary complained in 1954. Only two of the second set of council representatives made it into the sample of the examination, which also indicates the narrowing of the recruitment base of the local authority and its 'decline in quality'.

Another three elements fed the sense of solidarity.

- The broad, numerous community of farmers with a strong adherence to property had a decisive influence on public opinion.

- There was an insignificant number of large peasant land holdings later declared to be kulak holdings. (The justification for entering those nine persons on the kulak list did not include the size of their land holdings but 'kulak sentiments and mentality'!) As a result, the tribulations that befell this group - shattering their families and crippling them emotionally - did not also mean the total annihilation of the former actors, spokesmen and organisers of local public life, thus the representatives of the prevailing power could choose a 'more peaceful' turnover showing some signs of continuity but painfully wary of the proportions. This, in turn, meant that the possibility of personally reviving these roles and of more openly shaping public opinion was preserved.

- The high birth rate allowed ample room for organising kinship relations. The farming families were thus not forced into exogamous marriage strategies but could rely on the solidarity of a downward broadening base of intricate relations.

Access to the documents of the district attorney's office in Rétság for the period between 1953 and 1956 was available for this study. During these four years, in a total of 84 cases legal procedures were initiated - mostly for criminal offences - against inhabitants of Nógrád. Fifteen of the accused are included in the sample, amounting to one-fifth of the participants.¹⁵

The venues of the clashes of a political character were various forums of public life. One of the most interesting instances - the observations of János Pásztor made at a council meeting in 1954 - can be cited: "Agriculture developed well parallel with industry in the years 1946-48. Now, however, it isn't industrial production that is tripled, but the prices are many times higher... compulsory delivery of produce was immense, those who could not deliver were interned, cows were imposed a quota of milk even if they gave none... Earlier, there were more pigs in a single street of Nógrád than in the whole village today. That's because all the fodder is taken away from the people. Those high up don't know what's going on down in the village... the people can't stand it much longer. I, too, have attended courses and I learnt that the peasants would be squeezed until they joined the cooperative... There is no relaxation whatsoever in the new delivery regulation, so tell us your opinion and don't hesitate to speak against the government, either."¹⁶ But conflicts arose in nearly all areas of life and were avenged in a variety of ways. For example, János Králik jr. was given a prison sentence of several months for a remark made in the field to another cooperative member but meant simply as a joke: "You won't pillage our lands much longer, the communists will be hanged in October."¹⁷

The above ideas and statements about the motivational net seem to point to two things. First, that the local protagonists and actors of October 1956 did not come from nowhere but the potentiality of participation was inherent in their fate, situation, past and personality.

The records of both council bodies prove that the 1953 change of direction and the ensuing political changes had repercussions locally. The participants in the debates used the changeable national declarations and currently valid directives as arguments and counterarguments. This came to a head in mid-1956, in the

rekindled debate over the organisation of the cooperative. The vocabulary of the local leaders began to abound again in the rhetoric phrases used three or four years earlier ('The enemy must be exposed', 'Class struggle must be launched in the village!', etc.).

The final break was marked by Rajk's funeral, which all of a sudden made everyone aware of the possibility and need of change: "We are not only burying our martyrs but also an age," Vince Klucsik, the president of the council, said in the last meeting of the body in mid-October.¹⁸

Secondly, the above cautions us that the essential motive forces of the events cannot be known unless certain collective dynamical factors are exposed. What has to be emphasised in the revolutionary events is not the eruption of emotions but first of all the problem-solving decisions determined by the elements of motivation.

The emotional identification of the community

The central feature of the local events is a majority (mental) consensus of local public opinion rather than a drive to form a coalition on the basis of property or political affiliation. This consensus, however, has its roots in the category of collective approval rather than in justice.

Individual social groups certainly saw different power organisations and distribution of authority as just. However, the differing opinions also had broad surfaces of overlapping, or became synthesised in a process of reconciliation (invitation from house to house, nominations committee, village assembly, election, coopting).

The elections on 27 October probably had losers apart from the representatives of the old regime, but the overwhelming majority of the population could identify with the social contract established.

From a distance of 35 years, it is most difficult of all to determine the mental, emotive affinities and commitments, as well as the degree of awareness of the participants. If an attempt is made nevertheless, it is no more than the drawing of the rough outlines.

The slogans of the demonstration on 26 October survive in testimonies and reports. They reached the people in the centres of the uprising and from broadcasts by Radio Free Europe. 'Russians go home', 'All Hungarians are with us', 'The Kossuth arms, the Hungarian nation, all Russians go home', 'Down with the old leaders' indicate that the villagers surprisingly quickly and precisely aligned themselves with the goals and emotions of the rebels in Budapest.

The slogans mentioned all centre around the freedom and independence of the nation and the replacement of the leaders. No claims for rehabilitation appeared; no intention to avenge old grievances can be detected. The events of the demonstration included aspects that can be subsumed rather into the emotive-political sphere (demolition of symbols, burning of party documents and books, forcing representatives of the old regime to join the march, etc.). In this phase of the events the emotional factors predominated, but, as has been seen, certain dynamic elements were already activated that came to a head in the election phase.

The demonstration must be assigned a symbolic content: it was the symbolic act of terminating the old regime.

The first transport of aid from the village set off to the Károlyi Hospital in Budapest on 27 October, followed by other contingents until 12 November. The number of contributors and magnitude of donations are a moving indication of the solidarity shown by the population of Nógrád with the cause of the revolution.¹⁹

The legitimacy of the local leaders of the revolution is best exemplified by the fate of the national council after 4 November. The self-governing organ of the revolution sat until the end of December. "They were elected by the people, so they alone can be the leaders", the former council leaders reporting for work after 10 November were turned down with these words.²⁰ Adapting to the situation, during the dual reign István Piroska was elected EC chairman, and Mihály Rottek secretary, but the only role the members of the old executive committee were ascribed was to sign the notices of dismissal (mainly their own).

"We accept and approve of the proposition submitted by the provisional National Council elected by the workers of the village. Acknowledging that the officials of the council committed certain abuses of their authority, the population demanded that they be removed. Since the EC was elected by the villagers, the EC must represent the causes and will of the village, so at their demand, the officials of the former Council are recalled as of 27 October and we acknowledge the exclusive operation of the provisional National Council elected by the workers of the village," stated the valuable and informative justification summarising the direction, goal and nature of the events.²¹

The 'will of the people' is a phrase often cited by those explaining or evaluating their deeds:

"He resigned at the first assembly as he saw the people did not wish them to rule any longer, and he still sticks to this decision."

"The vice-chairman of the EC acknowledges the recall of the chairman and the secretary as it happened at the demand of the village, and he still acknowledges it," the former council president and his deputy declared to the district delegate as late as 28 December.²²

The implementation of the people's will gave the revolutionary leaders of Nógrád self-assurance, while the supportive public climate provided the moral background. This duality enabled the president and the secretary of the National Council to remain in office - despite enormous pressure - until mid-January when both of them were interned.

Intentions and wills

An examination of the steps taken by the national council can only shed light on a fragment of the intentions and wills that are inherent in the decisions. Our sources are particularly defective in this regard, and surprisingly enough, the recollections also turned out to be unreliable.

One characteristic feature of the operative phase is that the circle of persons in the centre of events narrowed down; only the top leaders of the national council had

information on most of the decisions and measures. Although the national council sat parallel with the restored executive committee until the latter half of December, only a few persons took part in all the meetings.

The series of food deliveries meant for Nógrád as well a continuous source of information in the capital, although there is no indication that they had direct contact with the ministerial organs.

By contrast, connections were rapidly established between the village council and the district centres of authority after 28 October. The need for information gave rise to peculiar solutions, which, however, indicate that the spontaneously emerged organs of the revolution immediately began to seek contact with each other. The different hierarchical levels and centres were organised into a system within days. In the district of Rétság very rapid consolidation took place, re-elections or minor atrocities taking place after 29 October in only a few villages after 29 October.

Some of the measures taken by the national council were aimed at implementing the directives of the district. They applied to law and order, and supplies. They included the establishment of the initially 16-strong national guard, reduced later, upon higher order, to four. Securing order and preventing atrocities were frequent topics discussed at council meetings, too. To this end, hunting weapons had to be handed in as well.

Another part of decisions tried to solve the conflicts accumulated locally. The distribution of collected maize followed the abolition of forced produce delivery, and the sharing of the brandy distilled on a half-and-half basis aimed at the restoration of a time-tested rule. (Earlier, the village distillery made brandy for a fixed - and importantly, low - price, raised to half of the distilled spirits in the fifties. The efforts to restore the custom are indicated by the old lists recovered, similarly to many other villages, showing the distribution of the brandy and the payment of the traditional fees.)

An answer to economic grievances was the restoration of the common land ownership of the old owners and the new land-holders. In the meetings organised by the national council the old leaders were re-elected and the restoration of the commonly owned forests was decided unanimously. This move was important as it went beyond the national and regional declarations and indicated the assertion of the village's own interests.

An attempt of similar importance was made in late November to restore the lands incorporated in the cooperative. However, with the changed situation it was not possible to realise this demand.

Few examples of measures implying political messages were found. One was the transfer of the party building - a farmer's property nationalised in the fifties - into public ownership and the dismissal of the entire council staff. (It is a peculiar and highly informative fact that these decisions were made in the second half of November and early December.)

It is also to be noted that the extant documents of the revolution, the subsequent reports and recollections exclusively concern the remedying of grievances affecting almost the entire community.

The assertion of these traditional legal principles, the restoration of the accepted values and the will to finalise the power position can be seen as the most

characteristic tendencies of the operative phase. Besides the ideological aspect of the restoration of the old position structure, this materiality is the other main local feature of the village's revolution. This, besides the idea of freedom that was embraced throughout the country, induced the citizens of Nógrád to answer the challenge of history in a rural space trying to find its equilibrium.

Notes

¹ The author wishes to express his thanks for the recollections and unselfish help of Ferenc Bajnai, János Dudoli, István Piroška, Ferenc Zima, as well as to the mayor, János Piroška and the notary György Dudás.

² Cf. Tyekvicska Árpád: Helyi forradalom - A községi önkormányzatok szerveződése a rétsági járásban 1956-ban. (Local revolution - The organisation of village governments in the district of Rétság in 1956). Lecture at the conference entitled "The helplessness of the peasants - the assertion of the peasants' interests (Feudal society - bourgeois society V)", Gyula 1991.

³ Information by Nógrád inhabitant István Piroška.

⁴ Archives of Nógrád County (NML) XXIII.783.d.19. Register of residents, NML XV.4. Nógrád. Temporary registration map 1962.

⁵ The information about the life-paths, public roles, property, the personal particulars and demographic data of the participants mentioned in the paper were collected by studying the records of the public notary, communal, council and cadastral registers. Since references should be made at almost every line, detailed annotation must be dispensed with here. For the composition of the nominations committee, the revolutionary and national councils as well as the national guard, see: NML XXIII.783.c.3.208/1957.

⁶ NML XXIII 783.c.3.208/1957. A farmer on 16 cad. acres, Mihály Hesz became the president of the People's Front and member of village EC in the second term. His utterances reveal that he managed to preserve some autonomy to the end. His statements suggesting dissatisfaction and calling for the increased role of the People's Front especially multiplied in late 1955 and early 1956. In January, he inquired into the fulfilment of the government's promises, and declared the 10% contribution to the village development fund to be excessive. In February he was ostentatiously absent from a meeting organising the cooperative, after which he was asked to resign from the EC. He returned to public affairs after Rajk's funeral. In the revolution he no longer assumed a decisive role, apart from conducting the election meeting.

⁷ The information about age and occupation is gained from the register of residents kept continuously from 1955. (NML XXIII.783.d.19).

⁸ NML V.323.21. The budget of the village of Nógrád for 1950.

⁹ NML V.323.224. List of farmers 1949/1950; NML XXIII.783.d.12. List of income taxes of the agrarian population 1957.

¹⁰ NML V.323.255. Registration of public food supplies 1943 I-II. (data on religious affiliations).

¹¹ NML V.322.7.52-8-123/1949.

¹² NML XXIII.783.c.3.208/1957.

¹³ NML XXXIII.1. State registers. Registration district of Nógrád.

¹⁴ NML XXV.4.B.11/1958. Law-suit of Ferenc Bajnai and his collaborators charged them with conspiracy against the people's democratic political order.

¹⁵ NML XXV.24.Documents of the District Attorney's Office of Rétság. Registers 1953-1956.

¹⁶ NML XXIII.783.a.4. 9 January 1954.

¹⁷ NML XXV.4.B.4/1956. Trial of János Kárlík jr. for subversion against the people's democratic order.

¹⁸ NML XXIII.783.a.7. 13 October 1956.

¹⁹ NML XXIII.783.c.11. Confidential documents 1956, documents of the National Council of Nógrád 13. One of the shipments was also reported about by the press under the title "Nameless patriots of the village of Nógrád" (*Egyetemi Ifjúság*, 31 October 1956).

²⁰ NML XXIII.783.c.3.208/1956. On the activity of the national council, *ibid.*; NML XXIII.783.c.11. Confidential documents 1956, documents of the National Council of Nógrád 2-18; NML MSZMP NMB Archives fond 33, fond group 1, 1956. 9."e. Nógrád; the trial of Ferenc Bajnai and his comrades mentioned in note 13.

²¹ NML XXII.783.c.11. Confidential documents 1956, documents of the National Council of Nógrád 10.

²² NML XXIII.783.a.7. 28 December 1956.

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