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# Forming of New Elites: The Hungarian Case

*Károly Szabó* \*

**Abstract:** »*Bildung neuer Eliten: Der Fall Ungarn*«. Among the Central-East European transition countries the Hungarian economic trajectory seems to deviate from the others. The high state redistribution resulted in a malfunctioning welfare state. The existing level of state involvement is a consequence of the elite settlements of the early transition period. Privatization involved overwhelmingly foreign capital and avoided “shock therapy”. Both policies have contingent effects on the existing elite configuration. An exploration of the economic elite identifies different segments with specific interests in state redistribution. The political and the economic elite have both evolved to coexist with a high disparity of incomes and a strong presence of foreign capital accordingly.

**Keywords:** transition, privatization, Visegrad countries, Hungary, elite segment, redistribution, foreign direct investment (FDI), elite settlement.

## 1. The Identification of the Economic Elite

An exploration of the role of elites requires, to some extent the identification of the elite. My starting point in this identification is the definition of elite in the new elite paradigm.<sup>1</sup> In case of the economic elite, these are the individuals “... who can effectively influence the reproductive processes of the national economy with their decisions and are incumbents of relevant institutional positions.”<sup>2</sup> This definition is simple and straightforward, but becomes more difficult as we attempt to delineate the circle of concrete persons belonging to the elite based on this simple definition.

Usually, theorists differentiate between elite fractions and segments. In this paper, this separation simply indicates two dimensions of grouping individuals belonging to the elite. An elite fraction is defined basically according personal attitudes and relations, political opinions, trust network, cultural background etc. Elite segments can be identified through the institutional framework or according the division of labor.

There is a deep-rooted debate on the subject whether the elite is a statistical artifact or a collective actor. Standing between the disputing parties I tend to

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<sup>1</sup> Higley 2006.

<sup>2</sup> Lengyel 2007. p. 97.

suppose that both the elite fractions and segments often behave as collective actors. They might have common interests and they are capable of collective action. The segments and fractions portray the elite in two dimensions. Belonging to a fraction does not necessarily define one's position in an elite segment and vice versa. As the notion of elite fractions is rather connected to politics, elite segments – which reflecting the structure of the institutional framework – are in the focus of this paper.

Using basically the positional approach in the first round I tried to explore or define the elite segments, on the basis of the division of labor. This approach, however, is deficient in terms of power, therefore it needs some kind of iteration and also regrouping. One may ask whether a group of persons has common interests. Are they capable of collective actions? Additionally to the division of labor, another variable seemed useful to apply. In most cases, the elite person has the command position of a key institution. But who owns the institution? The answer is quite often decisive. Thus ownership relations of the concrete elite position may be an important element. What is the ultimate role of the elite person, owner or manager? This dimension, the independency factor, may be the second variable to the classification of the elite segments. Considering these dimensions and the history of the last twenty years of the Hungarian transition, certain groups are emerging which may qualify to be recognized as an elite segment. In the following I attempt to present certain points of the above mentioned iteration process.

## 2. Some Specifics of the Transition

### 2.1 Transition countries in general

There were massive differences in the transformation of the centrally planned economies in terms of pace and methods, not to speak about the societal outcomes. If we concentrate on the opportunities of the elite, how they obtained ownership and control over the assets of a country in the new economic institutional framework, the differences are quite spectacular. As regards the big picture of the transition countries, A. Walder's analysis seems appropriate to draw on.<sup>3</sup> He has differentiated four types of transitional economies, defined by regime change, policy and regulatory environments. In line with these categories the economies of Poland, Hungary and Czech Republic represent Type 1 transition. Although Slovakia was omitted from this study, presumably because of the lack of data, I would also include it in this transition type.

According to Walder, the main characteristics of this type of transition include that the communist hierarchies collapse, losing assets and the powers of

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<sup>3</sup> Walder 2003.

appointment. The ruling party shrinks into an electoral party and loses early elections. Systematic privatization is orderly and well regulated. These circumstances were effectively limiting opportunities for asset appropriation by the old elites. The transition had its effects on elite circulation, too. “High rates of elite turnover in both political and economic organizations” took place and the old elites had limited mobility into new, propertied and corporate elites. “Those with higher education and skill were more likely to survive in elite salaried posts.” Walder is focusing on the opportunities of old elites, which issue has somehow played a central role in the transitional literature from the very beginning. Different theories were formed, verified and disproved. To sum up this transition type: “Early and rapid democratization followed by well regulated privatization sharply curtails elite opportunity”<sup>4</sup> and this more or less follows the early empirical findings of comparative research by Szelenyi, Wnuk-Lipiński, Treiman<sup>5</sup>.

The above categorization is undoubtedly true; however it probably portrays too general a picture about these processes. Comparison with e.g. China, Russia, Kazakhstan, or Vietnam may be misleading. These countries clearly have characteristics very different from those of the central European transition countries. To better understand the prevailing situation of the latter countries, it seems reasonable to elaborate (i) the differences among them and (ii) to certain extent, shift the empirical focus from the circulation or reproduction of elites to the institutional trajectories, namely to the question of how the elite positions are defined and reproduced in a society. More precisely, how the institutional conditions influence elite behavior and segmentation.

## 2.2 Transition differences among the Visegrad countries

The specifics of the Hungarian case may be grasped more easily if we concentrate on the Visegrad countries (Czech Republic, Hungary, Poland, and Slovak Republic). There are of course many similarities between these countries and the transformation of the former GDR, now East Germany, (see e.g. Best 2007 or Scheuch 2003), but, because of the strong West German influence on the transformation any comparison would be inappropriate or deceptive. These countries shared a very similar fate in the last 50 years or so, have akin cultural heritage etc. It is also true that “The present social and cultural-civilizational structures of the societies in question can be characterized as a hybrid combination of surviving bureaucratic and egalitarian, and new meritocratic and class relationships”<sup>6</sup>. The transformation of the institutional framework also has many common elements; nonetheless the differences among them are signifi-

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<sup>4</sup> Walder 2003, 914.

<sup>5</sup> Szelenyi, I., E. Wnuk-Lipiński and D. Treiman 1995.

<sup>6</sup> Machonin et al. 2007, 68.

cant if we look at some factors which determine the elite's elbowroom in capitalist market economies.

### *2.2.1 Transformation differences*

The Visegrad countries faced similar problems, might have had similar phases of transition<sup>7</sup> and have usually been classified as one group. It is correct that

Despite the significant policies of destatisation, the post-communist societies all share in common a higher level of state control than market capitalist countries ... The average amount of internally-sourced investment ... is even below the average for low income countries...<sup>8</sup>

Although the weight of the common attributes is significant, the transformation of the institutional structure resulted in very different outcomes (see below) even among the Visegrad countries.

The elites play a key role in the political and institutional transformation, and it is highly probable that this role is far more decisive than simple intermediation between national and external forces.<sup>9</sup> Elite attitudes, norms, behavior and actions may determine the speed and trajectories of transformation – the different privatization methods chosen by the countries' elites have greatly influenced the economic politics and problems of these countries in the 90's. Paradoxically, the paths chosen by these elites later determined an institutional framework which, in some cases, deeply undermined freedom of the elites in question.

This short paper focuses on the Hungarian case in comparison with the three others. The specifics of the Hungarian transition case can be summarized as follows:

- different starting point
- a sound elite circulation in the 1980s
- different pace of transition
- different preferences of economic policymakers

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<sup>7</sup> "This historical process has been until quite recently realized in two phases roughly determined by changing geo-political contexts. In the first of them (from 1990 to 1997), under the key influence of the neo-liberal stream in world politics and economy, occurred a transition to the democratic parliamentary political system and rapid radical economic and social changes. In many cases it occurred with application of the so-called shock-therapy, or at least of some of its elements. The subsequent economic difficulties and social tensions caused in the last third of the 1990ies mark the start of the second phase." Machonin et al. 2007. p. 67.

<sup>8</sup> Lane 2005, 244.

<sup>9</sup> See for example Pakulski 's Sandwich concept.

### *a) Starting point*

The Hungarian institutional transition already started in the early 80's. As an early bird, by 1989 Hungary had:

- a rather decentralized although state owned enterprise configuration,
- a comparatively advanced two tier banking system, with (later very badly) functioning commercial banks,
- a market oriented taxation regime,
- a more or less sufficient market orientated legal framework for the economy (company, bankruptcy and joint venture laws),
- a fairly strong **foreign direct investment (FDI)** inflow,
- close connection to and participation in the international monetary community (e.g. IMF, World Bank)
- a "reform minded" staff even at the top or almost at the top level of key central administrative institutions, such as the Ministry of Finance, Planning Office, National Bank.

### *b) Elite circulation*

Parallel to the early signs of transformation the elite circulation accelerated in Hungary. Empirical studies show that "the economic elite, and especially the bank and ministry leadership, was considerably rejuvenated in the late 1980s."<sup>10</sup> This new elite played a critical role in the transformation and also preserved its position after the changes. "The decisive majority of Hungarian economic leaders – some three-quarters – have had a constantly and gradually rising career, despite the political change."<sup>11</sup>

### *c) Pace*

As a consequence of the above circumstances a spontaneous privatization<sup>12</sup> of certain branches of the economy was already under way even before the actual transition (mostly through joint ventures and/or "outsourcing" profitable activities of state owned enterprises). A decisive political intention existed to curtail this process as quickly as possible, because it provided opportunities practically only to the incumbent entrepreneurial cadres of the old regime, a clear trait of elite reproduction. Also, the spontaneous privatization provided no revenues to the budget, indeed it was even very costly to the budget. The old company parts

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<sup>10</sup> Lengyel 2007, 99.

<sup>11</sup> Lengyel 2007, 101. "A representative survey consisting of managers and political leaders in 1993 pointed out that three-quarters of the managers of large enterprises were in some leading position already in 1988, while in the case of the political elite this proportion was 60%. Other research (Kolosi 2000, 103) clarified that "two-fifths of the market-oriented elite of the second part of the '90s was recruited from the former redistributive elite."

<sup>12</sup> Laky 1992.

left behind were in many cases bankrupt as a side effect of this kind of privatization. The new government reacted quickly with direct sale of the state owned companies to strategic investors as the preferred method of privatization, mainly with the assistance of foreign capital. By the end of the 90's Hungary was in a relatively advanced position in terms of the privatization of state owned enterprises and the financial sector (banks and insurance companies).

#### *d) Preferences*

Due to the spontaneous privatization (to stop or limit it) and political will, Hungary had chosen a straightforward and a relatively speedy way of the privatization. The dominant technique was the direct sale of the state owned enterprises to strategic foreign investors.<sup>13</sup> Interestingly, sooner or later the biggest companies were privatized with the same end result in the three other countries although they started with other methods. If spontaneous privatization had prevailed, policy-makers believed that the representatives of the socialist regime would have been able to survive in great numbers, which was not the objective of the new political elites. The lack of local capital and potential strategic investors (unlike in Germany) forced the Hungarian governments to rely almost entirely on foreign capital. Although re-privatization did have some role, from the elite point of view it did not give rise to elite positions among the beneficiaries.

#### *2.2.2. Institutional Differences – Different Trajectories*

Besides the common characteristics of the post-socialist countries:

- a higher level of state control,
- low level of internally-sourced investment,
- modest level of stock market capitalization<sup>14</sup>

It is worth looking at the differences in the Visegrad countries. The differences on the macro (institutional) level may explain the variation in elites' structure. Among the several possible distinctive elements (the vast of economic and societal variables) certain institutional differences can be grasped easily if we look the extent of the government and the foreign presence in the economy, business life and in the elite groups.

First look at the role of the state in these countries. The success of the transformation of a command economy is usually measured by the share of the private ownership in production, commerce etc. The countries in question show no significant deviation from the market economies and from each other in this

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<sup>13</sup> Gál 2005.

<sup>14</sup> Lane 2005.

respect. These countries were frontrunners among the post-socialist regimes as far as privatization and the regulatory environment was concerned. On the production side, no clear tendencies can be found e.g. in the weight of the state owned enterprises. However, GDP centralization (redistribution) shows some interesting figures to talk about.

#### *a) Redistribution*

The ratio of redistribution of GDP, which seems at first glance meaningful, may be misleading without the knowledge of the context. If we compare for example the centralization level of Germany and Hungary we may suppose that in the former the state has an even stronger function with all the negative consequences we consider typically a post socialist phenomenon.<sup>15</sup> A closer look however reveals that the similarities end with the ratios. Undoubtedly, similar amounts of money are centralized and spent, the differences are nonetheless huge. This is a matter of how a state taxes and spends and what happens to the tax proceeds. In case of Hungary, we might not be facing a newer kind of welfare state, which Esping-Andersen could not take into consideration when he outlined the different types of welfare states.<sup>16</sup> While it is a widespread belief that Hungary is a welfare state, growing numbers of researchers are doubting its orderly functioning.<sup>17</sup> Simply looking at some macro variables in OECD comparison one may recognize serious deviations from an ideal welfare state.<sup>18</sup>

It seems more adequate if we compare this (redistribution) in respect of the four chosen states. The time series data reveals a very interesting and at the same time significant tendency variation among these economies. The data demonstrate a clear-cut difference between Hungary and the other three. Since 2001, Hungary has been having an increasing redistribution trajectory, different from the others. They all have a decreasing state involvement (see Figure 1).

This should again be put into context. First, it has to be mentioned that Hungary was just in the opposite position in the 1980s. With a considerable black economy (25-30% of GDP) and a market-oriented, fairly autonomous corporate structure, a considerable part of the income stayed with the state owned enterprises. Hungary was almost a quasi market economy by the end of the 1980s.

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<sup>15</sup> “With around 50% of the spending from the GNP being directed by public bodies, there exists in Germany a strong interdependence between private firms and politically supervised institutions. Political parties and individual politicians appear to have an insatiable appetite for money, and firms are dependent on administrations and politicians. The dependency is strongest where contracts are passed by public bodies, if a license or an exception is needed for doing business, and if subsidies are required. There is a thin line between politicians in their current position as the brokers between private interests and public money, and outright corruption.” Scheuch 2003, 31.

<sup>16</sup> Esping-Andersen, 1990.

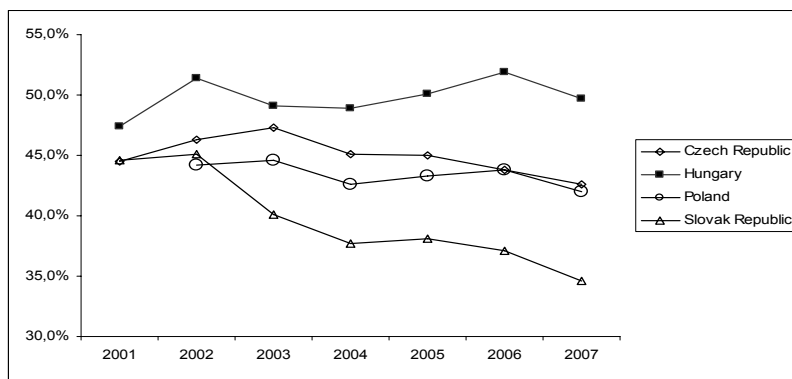
<sup>17</sup> See Sajó 2008, Szalai 2007, Kátay 2009.

<sup>18</sup> see Table 5. Life Expectancy and Redistribution in some OECD Countries 2003.



Secondly if we look at the details (Appendix, Table 1) we will see immediately the specifics of this deviation. The Hungarian “surplus” is spent mainly on two functions: general public services and social protection. In the discussed period only Hungary increased the social protection expenditures. The other three succeeded to decrease these expenses considerably. In case of the two functions one can easily find the “elite connection”. Mainly because of political reasons: (i) Hungary operates the largest state administration (the costs, 9,3% of the GDP in 2007, are more than double of the other’s), (ii) and the unresponsive social spending was a major election strategy of the last two elections.

Figure 1: Total Government Expenditure per Gross Domestic Product 2001-2007



Source: OECD Statistics.

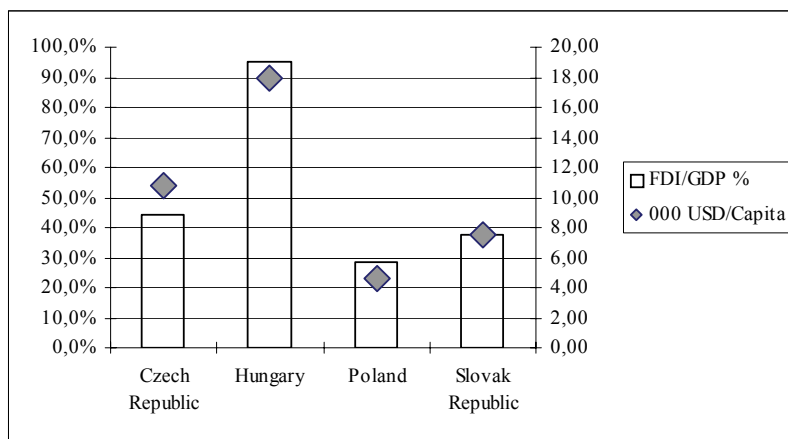
#### *b) The Role of Foreign Capital*

The role of the foreign capital has been debated since the beginning of the transformation. Unfortunately, the discussions sometimes get nationalistic overtones, which greatly hinders the objective evaluation of this issue. At first glance (Figure 2.) it is obvious that the involvement of foreign capital in Hungary is significantly higher than in the other three countries.

This picture is still valid if we look at the FDI/GDP ratios. Probably it is not necessary to argue that this high level of FDI in the Hungarian case (apart from the size of the country) has nothing to do with the high levels of Switzerland, Ireland or the other Western countries with similar high levels of FDI. This high level corresponds to a conscious line of past elite decisions and former policies.

The positive effects of FDI in Hungary are accepted even by the local competitors<sup>19</sup> and – apart from the extreme right politicians – there is a widespread consensus that, in the given situation, (post-socialist transition) there were limited opportunities for any other approach to solve the problem of “creating capitalism without capitalists”. However, agreeing with the common consent one must recognize the trade-offs, too<sup>20</sup>. From our point of view, the most important consequence of the strong foreign position lies in the configuration of the elite. Interestingly enough, what is remarkable is not the fact that managers controlled by foreign capital occupy the most important command positions in the economy, but the reactions of the national political and business elites. How do they counterbalance this situation? What kind of arguments and methods are used? What kind of structural specifics can be identified in the elite configuration? Before discussing the Hungarian elite structure it is useful to review shortly how the economists/sociologist evaluate the societal situation these days.

Figure 2: Per Capita FDI position, 2007 (USD'000)



Source: OECD Statistics, for details, see Appendix, Table 2.

### 2.3 Societal Consequences

There is a general consensus among economists and sociologists that certain social and economic problems are getting more and more serious in Hungary. Currently, the extent of the tax evasion can be estimated at between one quarter

<sup>19</sup> Laki 2007.

<sup>20</sup> 1995 the net transfer of capital income to abroad in was 4% of GDP, that rose to 8% of GDP by 2008.

and one third of GDP.<sup>21</sup> The extreme low level of employment (economically active population) compared to the other European countries is closely related to the high rate of redistribution. Tax regulation is extreme complicated, (at present the number of different kind of taxes is 53) giving rise to a huge administrative burden for taxpayers.<sup>22</sup> The high state redistribution became the target of the rent seeking attitude and behavior in the society.<sup>23</sup>

The performance and functioning of the so called welfare state can be questioned, the growing disorder and disarray in the economy result in legal norms losing their power.<sup>24</sup> The extensive participation of the state in the economy is a bad mutation<sup>25</sup> and a heritage of the socialist regime. Beside the high centralization, the state operates with a formidable complicated and wide array of regulation which effectively restricts the small and medium sized enterprises<sup>26</sup> and in general any venture. The high budget deficit and the concomitant high level of indebtedness of the country are acute problems which lead to serious financial crises from time to time. It is a growing concern that the excessive redistribution is creating a kind of undesired dependence.

Some statistics unmistakably underpin the above statements. The ultimate measures of the welfare situation demonstrate a sober picture. Stagnation in the life expectancy is apparent. Hungary lags behind its peers (Appendix, Table 5.). The acutely low level (about 20% of the 18-65 years old) of the employment of the Roma population since the beginning of nineties may explain and may have been responsible for the growing racism and the strengthening of the extreme right, even fascist movements.

### 3. Elite Consequence: Structure of Economic Elites

The following are hypothetical statements on the structure of economic elites, based on the interviews so far and available data on economic elite positions. A further investigation is necessary to underpin them.

#### *a) Economic Policy*

From the beginning of 1990's concerning the economic policy the most important "elite settlements"<sup>27</sup> and compromises forming the economic elites were the following:

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<sup>21</sup> Krekó-Kiss 2007.

<sup>22</sup> Kátay 2008, 5-6.

<sup>23</sup> Szalai 2007.

<sup>24</sup> Sajó 2008.

<sup>25</sup> Muraközy 2008.

<sup>26</sup> Török 2007, 2008.

<sup>27</sup> The notion of elite settlements used in this paper slightly differs from that of discussed by Higley and Burton in their widely cited article (1987). They used this concept describing

- fast privatization of state owned enterprises, through direct sale to foreign investors,
- in the same time retaining control in the energy sector,
- fully liberalized commercial banking, maintaining monopoly position for OTP in retail banking, and parallel limiting of Hungarian individuals and non financial firms to minority positions in banking,
- tax holidays to foreign “strategic investors”,
- preserving the “accomplishment s” of the socialist welfare system,
- only soft “shock therapy” to the citizens.

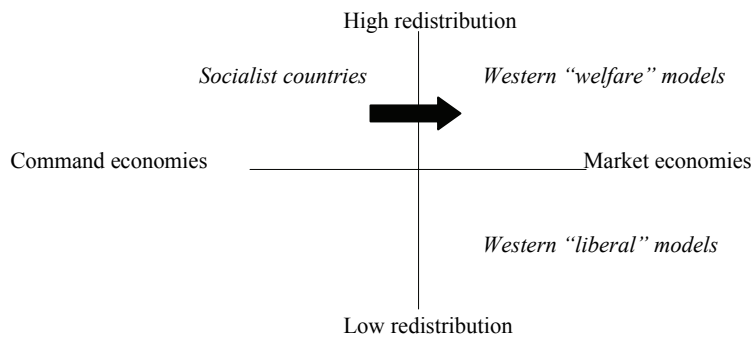
The new Hungarian elite have been in the making since the early eighties.<sup>28</sup> The young and middle aged professionals filling non elite positions in the central governmental institutions (ministries, banks) played an important role in the transition of 1990. On the one hand several of them have become senior bankers, or held top positions in the administration and we can find them even among the richest Hungarians (see below). On the other hand they have influenced or formulated the economic policies of the new governments since 1990. For various reasons, the economic policy of the majority of economic policy makers was a specific mixture of neo-liberal and socialist welfare theories. The generally accepted ideology was that Hungary should follow a horizontal trajectory, demonstrated by the simplistic figure below, and become a western type market and welfare economy.

They argued for and followed a quick privatization and market liberalization trajectory on the one hand, but wished to maintain a high level of welfare services on the other hand. In reality the welfare services has never been high but egalitarian, the same (low) level to everyone who were not in an elite position. Another element of socio-economic policy, to make the transition velvet like, was the high level of income redistribution in the form of various money transfers to the population. The successive political courses were keen to follow this irrational economic policy, a perverse mixture of quasi liberal and communistic concepts.

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the agreements between warring elite fractions which might pave the way to stable democracies. In the context of this paper I use it describing the stable and long lasting agreements among elite segments. (i.e. between political and economic elite segments).

<sup>28</sup> “All things considered, the replacement of the Hungarian economic elite considerably grew in the latter half of the 1980s, prior to the change of the political and economic system.” Lengyel 2007, 110.



The huge administration, the extensive centralization and distribution, the state run welfare services<sup>29</sup> needed to maintain several “economic” elite positions which had nothing to do with a market economy. The holders of these economic elite positions have been the greatest advocates of state redistribution. According to even the most recent studies, the majority of the populations are strongly in favor of paternalistic ideologies, which makes these elite positions particularly strong. No wonder that the high budget deficits and high centralization of GDP became a norm in Hungary during the last 20 years.

Since the end of the 1990s (mainly due to privatization and later because of the continuous increase in foreign involvement in the Hungarian economy<sup>30</sup>) foreign capital has played a dominant role in the economy (see Figure 3.).

Figure 3: Division of the 200 Largest Companies by Ownership, 2007  
(Financial sector excluded)

Ownership	Number of Companies		Net Sales M HUF	
Foreign	153	76,5%	19 097 157	71,2%
Public/Stock Exchange	10	5,0%	4 399 896	16,4%
State or municipality owned	13	6,5%	1 730 242	6,4%
Domestic private	23	11,5%	1 571 885	5,9%
Other	1	0,5%	39 699	0,1%
Total	200	100,0%	26 838 879	100,0%

Source: <[http://www.fn.hu/top\\_200\\_46/](http://www.fn.hu/top_200_46/)>.

As the shares of the publicly listed companies are held mainly (some 75%) by foreign investors we can assume that today more than 80 % of the 200 larg-

<sup>29</sup> Some cases the hypocritical element is astonishing. In Hungary the healthcare services are a mixture of black and gray “wild” market and centrally planned economy. The real market and competition is legally excluded in the majority of the health care services.

<sup>30</sup> See: Laki-Szalai 2004, 157.

est companies (by net sales) are controlled by foreign strategic or financial investors. Among the 50 largest there is only one state owned and one domestic privately owned company. If we include the financial sector the picture is the same. The commercial banks – except OTP (see later) – are owned by foreign banks and the situation is the same in the insurance sector. Looking at the bulk of the enterprises the foreign presence is still decisive.<sup>31</sup> Some 60 % of the registered capital belongs to foreign entities.

The interests of the foreign investors are quite diverse and so is their distribution by country of origin. Yet, there is one group which emerges from the mass of the foreign controlled companies, and these are the biggest ones. This group enjoys different tax treatment i.e. lower taxation (although not very transparently). Their managers and organizations have constantly been engaged in bargaining and lobbying with politicians and the administration.

In lack of concrete empirical information about the managers of foreign owned companies some indication can only be drawn from the results of Intune research.<sup>32</sup> The managers of the multinationals and foreign owned companies are, as a rule, well trained, have internationally accepted knowledge, at least half of them have international experience (studying or working abroad), their attachment to the European Union is strong.

The leaders of the largest foreign controlled companies considered to be members of the elite, act under paradoxical institutional conditions. They compete in a market where competition is not really the norm. They have to lobby constantly to preserve their preferential treatment in the tax regime (allowances, grants etc) and in the regulatory framework, to maintain their monopolistic position guaranteed formally or informally by the authorities. Their activity strongly supports a quasi-capitalist system, which is quite different from that prevailing in the countries of their parent companies, from their actual employers' homeland. Their personal interest is, in most cases conforming to their employers' interests, to be profitable, thus to maintain the existing institutional framework.

#### *b) Elite Segments*

When classifying the elite, we need to accept compromises. Some part of it will always be in the shadow and the media and the publicly available data distort or misrepresent their internal structure (i.e. who is important or “Who rules...”). The borders of the elite in any kind of political regime are always vague and permeable. Now it seems practical to sort the economic elite positions into subgroups where the individuals may have common interests and

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<sup>31</sup> Laki-Szalai 2004, 126.

<sup>32</sup> In the sample there were 42 responding from the economic elite (4 bankers, 29 company manager from the largest companies and 9 leader of chambers of employers) Lengyel 2008.

action potential. According to the dimensions discussed in point 1. (sector, institutional ownership, personal position) the economic elite segments may be described according to the followings:

- economic policy-makers,
- managers of big state owned companies, and public institutions,
- managers of multinationals, and FDI companies,
- bankers,
- most influential national entrepreneurs,
- business elites
  - i. client capitalists and “privatizers”,
  - ii. market based industrialists.

The interests of these different elite segments are quite diverse. What is interesting from this paper’s point of view is how the interest of the elite segments are reconciled, with the consequences of high redistribution and strong presence of foreign capital. Although the two aspects seem fairly independent I assume that the interests of the different segments themselves connect them. The high foreign presence in the economy<sup>33</sup> may indirectly and paradoxically underpin the strong state position and high redistribution which is apparently not prevailing in the interest of genuine welfare services. As a self defense against foreign capital, the political elite (and the related business elite segments) wish to retain as extensive control in the economy as possible. The omnipotent state is an excellent instrument for this purpose. Another explanation in line with this concept (it has been mentioned in some interviews), is that the only way of the fast (elite) appropriation or accumulation of capital is tapping the state/municipality budgets.

The common interests and action potential of the above listed groups in most cases are obvious and even quite transparent too, e.g. bankers or leaders of FDI companies. Although the economic policy-makers, managers of big state owned companies and public institutions have no formal (united) organization to represent them, their position may be still the strongest among the other elite groups. From the end of the 90’s these top positions have been under the direct control of the governing parties. The holders of the top positions in lot of cases have decisive role in the governing parties or powerful relationship with a party leader. Anyway, they are part of the insulated trust network of a political party which governs or will govern soon. On the other hand it is worth discussing the interests positions of the typical business groups.

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<sup>33</sup> Apart from the banking sector, the real estate development is also dominated by foreign investors and developers irrespectively of the fact that one-fourth of the publicly richest Hungarians made his fortune in this sector.

### *c) Most Influential National Entrepreneurs*

Studying the Hungarian elite one cannot avoid to be very concrete in some cases because these (group of persons) have probable direct effect on the institutional framework, the patterns of elite behavior and the generally accepted rules of conduct (in the elite). Among the most obvious and visible cases it is worth selecting the managers-owners of OTP and MOL.

OTP is the largest Hungarian bank, representing ca. 26% of all banking assets and 37,5 % of banking profits in 2007.<sup>34</sup> In some sectors (e.g. retail banking) OTP still retains more than a 50% market share. It is listed on BSE and approximately 70% of its shares are held by foreign investors. The management is said to hold around 15% of the stocks.

MOL (energy sector, oil and gas) is the largest Hungarian company (together with TVK which is controlled by MOL), it has around 11% of the net sales of the 200 largest companies. It is listed on BSE and approximately the 80% of its shares are held by foreign investors. The management holds an undisclosed share of the stocks.

Their common characteristics are as follows. They:

- have substantial and decisive size in their sector,
- are owned by foreign institutional investors,
- are controlled by the domestic managers,
- have intense connection to the political elite,
- have monopolistic position in their sector,
- are highly profitable,
- went through a special privatization with management participation and options,
- have personal interlocks in the boards, and partially undisclosed holdings,
- enjoy reliable backing by the actual government,
- the main political parties have delegated (although not formally) representatives on their boards and among the directors.

The influence of the few dozen elite persons around them could be assessed through how quickly and easily they are able to persuade the legislation or the government to enact a law even if it may not be entirely in accordance with the EU rules.<sup>35</sup> Their apparent close connection to the state, and their incumbent positions on the other hand provides a solid support to existing elite configura-

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<sup>34</sup> Source: PSZÁF Aranykönyv 2007.

<sup>35</sup> See "Lex Mol" a swift legislation to defend MOL against OMV partial takeover bid. At the very beginning of the financial crisis in 2008, likely under the pressure of OTP (and of course some other banks) the government hastily issued a guaranty for all (!) deposit without upper limit. Similarly market restricting and EU rules negligent legislation went through in electricity sector in 2009. All of them went through with the unanimous agreement of the main political parties.



tion. An ubiquitous and omnipotent state is the most effective device to serve their interests. These largest industrialist are not connected to any particular political side, but to all. They are beyond any media inquiry, their businesses' interests are so significant, their associations and relationships are so widespread that both politicians and the media tend to regard their businesses as "national interests".

#### *d) Business Elites*

Apart from the most influential and visible groups the identification of the *domestic* business elite within the given institutional framework (strong foreign presence and an all-powerful state) raises some unique question. Does this group exist at all? Could we qualify the known "big entrepreneurs" as elite as they are not controlling the majority of the biggest 200 Hungarian companies? What is the proof that they are able to influence the reproduction of society? The so called top entrepreneurs are generally not ready to be visible even to anonymous scientific research.<sup>36</sup> Without a clear sociological convention as to the identification of elites (the positional, reputational etc. approaches all have relevance) especially in transition countries, it seems rational to follow examples of the researches facing similar problems in post-socialist states and that is the various lists of 50/100 richest people.<sup>37</sup>

One of the available lists<sup>38</sup> of the wealthiest Hungarians has been published by a daily economic newspaper since 2002. This list – as any other of this kind of lists – has its limitations. The omissions are not entirely transparent, if somebody is not too keen to be visible, can easily be omitted from the list. According to the policy of the editors, any legally questionable wealth is also omitted, whose owners may also be interesting from the point of view of the elite. The general belief, namely, that there is an invisible pair to this list, is probably not too far from the truth. The people on this list therefore do not represent the Hungarian business elite as such, but only those top entrepreneurs, who are fearless enough to "go public".<sup>39</sup>

To assess the weight of these people in the economic elite, it is worth considering the list of the largest 200 companies and the richest 100 individuals. The cross section of the two lists shows that 15 of the largest companies are controlled by entrepreneurs also on the list of the richest people (see Appendix,

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<sup>36</sup> Laki-Szalai 2004, 22.

<sup>37</sup> Machonin 2007, Weselowski 2007.

<sup>38</sup> More newspaper publish such list, here I use the list of the "Napi Gazdaság" because it has been publishing it since 2002, and with a relatively constant selection methodology, with Hungarian citizens, only with transparent and legal wealth.

<sup>39</sup> The list is "a manipulated reality show." Claims a well known sociologist (E. Szalai). That is probably too negative description, the problems of the list preparation clearly illustrate an interesting aspect: the lack of the value consensus in the society.

Table 3). The owners of the remaining ten domestic private companies (from the top 200 companies) are not on this list. It is probably right to consider this cross section: being among the wealthiest and at the same time controlling one of the 200 biggest enterprises as being part of the elite. Which sectors provide the best opportunities to be wealthy? Real estate development, construction (25 cases) and the financial sector (15 cases) dominate the transparent domestic path to become wealthy.<sup>40</sup> What did these people do before 1990. In the case of the 2007 list I narrowed the analysis to 77 persons, being at least 45 years old in 2007 or 28 in 1990. (The average age of the people on the list was 53 years.) Most of them, 45 of 77, were some kind of an entrepreneur even before 1990. It is not a surprise because from the beginning of the 1980s it was relatively easy in Hungary to start “capitalistic” ventures. Ten of the 77 had middle or lower positions in ministries or banks and 19 of the 77 had an employment background at a larger state owned enterprise. It is remarkable that only 5 of them had a clear elite position before the transition.<sup>41</sup>

Having in mind that this public list of wealthy people represents only the visible part of the new top capitalist class it would be difficult to draw any serious conclusion without further detailed investigation. It is possible nevertheless to explore what the elites think about the common beliefs, prejudices and biases frequently emerging in the world of media. According to the interviews completed so far (12-14 case) the business elite may be sorted into two, more or less distinct subgroups. The first of these groups is the so called party-client capitalist. This group of people has a very close connection to the political parties, they rely on public contracts and special licenses and play a crucial role in financing the parties. One can find them on both national and regional (local) level. Similar subgroup is the so called “privatizators”. They acquired their fortune or the decisive part of that through not too transparent privatization transactions. Political parties rely considerably on these groups’ support because of the relatively limited legal party financing possibilities. On the one hand this situation is a bit “uncomfortable” to the big parties (and disastrous from the ethical point of view to the country as a whole), on the other it was just this system that has created an effective entry barrier against any new political initiative in the last 20 years.

The second business segment is the market entrepreneurs, who are more or less independent, their businesses have nothing or not too much to do with public contracts, parties or municipalities, and who are keen not to be “involved” beyond the generally accepted level of corruption. (The empirical research faces severe barriers approaching these topics. Even in the looser atmosphere of the interviews it is not possible to get any concrete information.) However, it is a new tendency that there are no strict walls among these clus-

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<sup>40</sup> See Table 4.

<sup>41</sup> Detailed list in Table 4.

ters and these business groups are getting closer to each other slowly, sooner or later the distinctive role of the origin of the wealth seems to fade away.

*e) Symbiosis: Economic elite and the State*

Since by definition the high taxation and state redistribution greatly reduce the freedom economic actors, one of the the questions is how profitable operation is possible under these circumstances, how can the entrepreneurs succeed to retain enough resources to an adequate level capital of accumulation, meanwhile the domestic business groups have additionally faced the strong incidence of the foreign, multinational competition. Another question is how elite interests and conflicts are reconciled by the political (and administrative) elite. How are they able to compensate the different business elite segments?

Due to the obvious interlock between the political and certain domestic business elite groups – the most influential national entrepreneurs, client capitalists and “privatizers” – the “state connection” provides the unique opportunity, in a formally disadvantageous taxing system, for a thriving business operation. In the last ten years from the elite appropriation point of view the significance of the privatization of state owned enterprises gradually are fading away as the number of salable companies are diminishing, new methods of “compensation” emerged. The most important among these opportunities are the purchase orders for central and local government, and public institutions together with the PPP contracts. The EU accession provided further means for the political elite to eliminate the devastating effects of the high taxing level. The centrally and politically controlled distribution of EU convergence subsidies (approximately EUR 23 billion between 2007-2013) grants that selected enterprises and businesses make sound profits. The importance of this channel is well palpable. By the end of 2006 – during and behind the toughest ever political (media) struggle between the main political fraction since 1990 – the political parties were able to agree quite rapidly on the division of the of the cake, and have hastily erected politically balanced network of institutions to distribute the EU monies. Moreover the pure size of the domestic companies involved provides substantial benefits in the presence of substantial entry barriers. The heavy burden of massive administration requirements and regulation cannot be handled without extensive apparatuses which are indispensable to access the world of subsidies, state/EU tenders and various tax allowances. In these benefits the domestic “big” capitalists seek and find compensation for the strong presence of foreign capital, too. There are several further and even less transparent means political elite may use. On the local level the most important among these are the non transparent, negotiable local zoning regulations (hidden assets for the municipalities) which have provided singular opportunities for preferred real estate developers resulting their strong presence on the wealthiest list. The prevailing regulation is formed in a way that a municipality is (compare to the average of OECD countries Hungary has 5,6 times more of

these authorities per capita) de facto independent from any formal central government control. The only governance is carried out directly by the political parties.

Traditionally, financial sector is more closed and better organized than other branches. This is especially true for the Hungarian financial elite groups. In the late 80's their role was rather constructive, as outcome of the relatively fast privatization and opening up of the financial market. The expertise imported by the new financial institutions has greatly contributed to expansion of the financial discipline, and the improvement of corporate governance. However, on the other hand, they were able to maintain effective oligopoly, asymmetric regulation (even today banks are free to change the key conditions of a credit agreement) with weak consumers' interest protection and low level of competition in retail banking services. Time to time there is a heated discussion that banks are the real beneficiaries of the housing finance subsidies. The fact is that by 2002-2007 Hungarian banks' ROA and ROE levels were more than two times higher than the Euro region banks' indexes. It seems that financial sector can easily shift the burden of high redistribution and taxation and even bad debts on its consumers. The extreme high level of foreign ownership in this sector (above 80%) virtually makes the financial elite members untouchable to the political elite and in the same time provides excellent bargaining position to this elite segment.

The managers of state owned companies and public institutions are obvious beneficiaries of the high redistribution. They have the easiest access to state and municipality budgets and due to the meager financial and business control as well as the soft budget constraints their reproduction and appropriation prospects are ideal under the given circumstances. One of the most important sources of appropriation is the outsourcing profitable line of businesses (especially in healthcare services). Corruption is the other important source of this segment's capital accumulation, however this phenomena is deeply intermingled with the political parties' financing. Probably the great number of corruption scandals unfolding in the media is because of the upcoming elections 2010, nevertheless this indicates the likely magnitude of this channel. Personally this groups are fairly segmented, the local and branch interests crosscutting sometimes even central political objectives, they stand closest to the political elite. The main criterion of their recruitment is loyalty to the delegating party rather than expertise. Due to this situation and the lack of countrywide organized assemblies their common interests are seldom expressed like the bankers' or big entrepreneurs' concerns. Apparently they are in fierce contention for the budget sources, just because of this they are the most enthusiastic advocates of the outsized state notion. They are ready to back up any government action to increase the public contributions.

The managers (and owners) of multinationals, and FDI companies are well organized and often backed by related ambassadors. Their companies are used

to operate in socialist countries and practically in all kind of regimes. The high level of redistribution is easily counterbalanced by their strong position acquiring preferential tax treatment, tax holidays, legal monopolies, exclusive licenses (e.g. in energy, telecommunication sector) or even profit guaranties (energy sector). These managers are generally more qualified, and better trained than the other business segments' top executives (bankers are partly overlapping) and for them it is really obvious how state (budget) can be problematic an overwhelming. Nonetheless their and their companies' interests are better served if their preferential position is maintained as more competitive environment might jeopardize their prospects.

The various economic elite segments discussed above have learned and evolved to coexist with high state redistribution. Formally all "compensations" to various elite segments are in contradiction of a capitalistic economic theory, the formal and legal institutions and the "watchdogs" of the country, but the political elite so far was able to disarm any attempt to change the established status quo<sup>42</sup>.

#### 4. Conclusions

It may be practical to extend the analysis of the Hungarian elite configuration beyond the competing political fractions and to identify and examine the various (business) elite segments. The elite segments are the natural reflections of the given institutional background. The question of united or disunited elites maybe relevant in this (economic) dimension, too. If we intend to understand what the Hungarian elite's responsibility is today, the two dimensional investigation (political fractions, and economic elite segments) may provide a deeper understanding of the problems and trajectory of the Hungarian society. The various elite segments do have their particular interests and are able to act on a similar way as fractions do. The Hungarian examples show that elite segments may act independently from the (political) fractions but they are able to act together with one or more political fractions, too.<sup>43</sup> The very loud rivalry in the political arena often sheds light on the contests and settlements among elite segments. Unfortunately, these contests and settlements are very seldom trans-

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<sup>42</sup> Probably it is not a pure accident, that in the last 15 years there were no change in the management of the Competition Authority and the leader of the State Audit Office has been not changed in the last 20 years irrespective of which party happened to be in governing position.

<sup>43</sup> An independent or politically neutral action was the legislation to defend MOL in 2008 sponsored by the most influential industrialist. The health care referendum in 2007 represented a case when an elite segment openly tried and succeeded assures its interests in concert with a political fraction.

parent and normally closed to any (even sociological) investigation. Hopefully, qualitative studies may assist in making the picture a bit more precise.

The Hungarian example seems to portray a case that even among very diverse elite segments it is possible to achieve settlements. Undoubtedly, these settlements have their merits and also problems. The societal consequences mentioned earlier are obviously in close connection with the compromises among elite segments and political fractions.

It is highly probable that elite's decisions have profound effects on the institutional framework of a country and the differences between the countries discussed in this paper can be traced back to certain elite preferences and decisions in the 1990s. The Czech, Poland, and Slovak institutional frameworks have clear differences compared to the Hungarian but of course they all have their trade-offs. The external conditions being similar – 45 years of socialist history, gradually increasing connection to the West European economies in the 1980s – the elite “connection” seems inevitable. On the one hand it shows that the path dependence is not that decisive, different trajectories are possible, on the other hand one must take into consideration that in the beginning of the 1990s the internal structures were quite fluid thus providing more options to elites. Nowadays the elite configurations are more stable, they have crystallized to a great extent since 1990. The Hungarian empirical data show the elite is closing down<sup>44</sup> indicating that the elite configuration is stabilized and at the same time the path dependence (the institutional frames ) may be more commanding. The purpose of my (research) paper is to argue that the Hungarian transition case noticeably deviates from the other central European economies, and the existing elite configuration is in close relation and interaction with this deviation. Hopefully, further interviews will result more grounded hypotheses compare to the preliminary statements of this paper.

## Appendix

### List of Tables

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<sup>44</sup> “As for the pace and depth of the replacement of the elite, compared to the marked changes in the late 1980s, signs of deceleration and closing down were discerned in the latter half of the nineties. Another sign of slowing and consolidation was the growth of the rate of older leaders in the whole of the elite.” (Lengyel 2007, 111).

Table 1: Total Government Expenditure /Gross Domestic Product in millions of Current Prices (National Currency)

GDP	Country	T : Total Function	010 : General public services	020 : De- fence	030 : Public order & safety	040 : Economic affairs	050 : Environ- mental protection	060 : Housing & community amenities	070 : Health	080 : Recreation, culture & religion	090 : Educa- tion	100 : Social Protec- tion
2002	Czech Republic	1.141.206	117.852	38.961	52.821	219.869	24.465	15.755	153.773	30.988	126.953	359.769
	GE/GDP	46,3%	4,8%	1,6%	2,1%	8,9%	1,0%	0,6%	6,2%	1,3%	5,2%	14,6%
	Hungary	8.815.551	1.682.802	253.395	391.510	1.302.137	148.270	142.867	936.291	317.242	1.000.931	2.640.105
	GE/GDP	51,2%	9,8%	1,5%	2,3%	7,6%	0,9%	0,8%	5,4%	1,8%	5,8%	15,3%
	Poland	357.590	48.500	10.321	12.077	28.340	4.664	12.389	35.230	8.556	49.219	148.295
	GE/GDP	44,2%	6,0%	1,3%	1,5%	3,5%	0,6%	1,5%	4,4%	1,1%	6,1%	18,3%
	Slovak Republic	16.600	2.640	783	977	2.462	314	377	1.864	346	1.340	5.496
	GE/GDP	45,1%	7,2%	2,1%	2,7%	6,7%	0,9%	1,0%	5,1%	0,9%	3,6%	14,9%
2007	Czech Republic	1.504.466	155.281	42.290	73.428	242.259	26.082	40.444	251.486	44.287	164.528	454.381
	GE/GDP	42,6%	4,4%	1,2%	2,1%	6,9%	1,0%	1,1%	7,1%	1,3%	4,7%	12,9%
	Hungary	12.666.227	2.377.362	321.176	502.929	1.666.348	179.333	253.871	1.237.871	371.157	1.347.755	4.409.601
	GE/GDP	49,7%	9,3%	1,3%	2,0%	6,3%	0,7%	1,0%	4,9%	1,5%	5,3%	17,3
	Poland	493.131	64.790	16.282	21.522	53.233	6.68	13.189	53.518	13.138	66.838	183.941
	GE/GDP	42,0%	5,5%	1,4%	1,8%	4,5%	0,6%	1,1%	4,6%	1,1%	5,7%	15,7%
	Slovak Republic	21.292	2.302	952	1.212	2.632	373	464	3.983	419	2.444	6.511
	GE/GDP	34,6%	3,7%	1,5%	2,0%	4,3%	0,6%	0,8%	6,5%	0,7%	4,0%	10,6%

Source: OECD Statistics.

Table 2: FDI positions by partner country

Type of FDI IN: Inward								
Currency million USD: US dollars								
Year	2000	2001	2002	2003	2004	2005	2006	2007
Reporting country								
Czech Republic	21.647	27.093	38.672	45.286	57.255	60.662	79.841	110.095
Hungary	22.856	27.378	36.213	48.345	62.624	61.286	121.004	179.979
Poland	34.227	41.247	47.900	57.851	86.634	90.752	125.597	175.851
Slovak Republic	4.503	5.734	8.594	12.371	21.881	23.655	33.612	40.702

2007	Population capita	GDP M USD	FDI/GDP %	000 USD/Capita
Czech Republic	10.252	248.025	44,4%	10,74
Hungary	10.050	189.038	95,2%	17,91
Poland	37.988	613.318	28,7%	4,63
Slovak Republic	5.390	108.355	37,6%	7,55
2007				
Reporting country				
Australia			41,8%	
Austria			...	
Belgium			....	
Canada			39,9%	
Czech Republic			44,4%	
Denmark			80,4%	
Finland			48,3%	
France			52,1%	
Germany			...	
Greece			16,7%	
Hungary			95,2%	
Iceland			107,7%	
Ireland			98,6%	
Italy			20,1%	
Japan			3,1%	
Korea			...	
Luxembourg			187,7%	
Mexico			...	
Netherlands			112,7%	
New Zealand			61,8%	



<i>Table 2 continued...</i>				
Norway			...	
Poland			28,7%	
Portugal			47,2%	
Slovak Republic			37,6%	
Spain			42,5%	
Sweden			84,2%	
Switzerland			109,4%	
Turkey			16,4%	
United Kingdom			62,1%	
United States			15,2%	

Source: OECD Statistics.

Table 3: Cross Section of 200 Largest Hungarian Enterprise 2007 and 100 Richest Individuals

Rank	Without Financial Institutions	M HUF	Ownership	Rank	Name
34	Hungaropharma Gyógyszerke- reskedelmi Zrt.	194.501	Domestic	16	Béres Family
61	Vegyépszer cégcsoport	107.037	Domestic	8	Nagy Elek
62	IKR Termelésfejlesztési és Kereskedelmi Zrt.	104.469	Domestic	64	Saxon Attila
70	Waberer's Holding Zrt./Waberer's Cégcsoport	89.640	Domestic	7	Wáberer Gy.
76	Videoton Holding Zrt.	81.528	Domestic	5	Széles Gábor <sup>1</sup>
84	Betonút Szolgáltató és Építő Zrt.	74.293	Domestic	10	Dunai György
105	Axiál Javító, Kereskedelmi és Szolgáltató Kft.	53.406	Domestic	57	Harsányi Zsolt
106	Market Csoport	52.743	Domestic	6	Veres Tibor
112	KÉSZ Közép-Európai Építő és Szerelő Kft.	52.127	Domestic	65	Varga Mihály
116	MAL Magyar Alumínium Termelő és Kereskedelmi Zrt.	49.567	Domestic	22	Tolnay Lajos <sup>2</sup>
118	Nitrogénművek Vegyipari Zrt.	48.210	Domestic	9	Bige László
130	Pick Szeged Szalámigyár és Húsüzem Zrt.	45.538	Domestic	2	Csányi Sándor <sup>3</sup>
156	System Consulting Befekt., Fejl. és Ker. Zrt.	38.058	Domestic	68	Kapolyi László
186	Masped Zrt.	32.189	Domestic	59	Kautz István
187	Zwack Unicum Csoport*	32.078	Public	29	Zwack Péter

<sup>1</sup> Also: 14. Lakatos Péter, 17. Sinkó Ottó, <sup>2</sup> 26. Petrusz Béla, <sup>3</sup> CEO and minority owner of OTP Bank.

\* Public company controlled by Hungarian management.

State owned company	13
Domestic owner and control ( among the 100 Wealthiest)	14
Domestic owner and control	9
Public listed company, controlled by Hungarian management	6
Public listed company controlled by FDI	4
FDI controlled company	153
Other (under liquidation)	1
Total	200

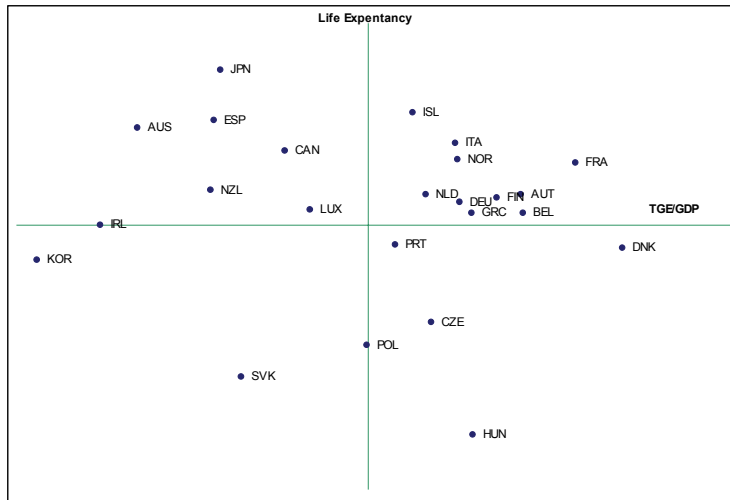
Table 4: 100 Richest Hungarians 2007

Employment position before 1990	
Age: 44 years or less	21
Government, banks	10
State owned companies	19
Entrepreneurial background	48
Other	2

Sector of activity	
Real Estate, Constr.	25
Financial	15
Other	60

Table 5: Life Expectancy and Redistribution in some OECD Countries 2003.

	Total Government Expenditure / Gross domestic product	Life expectancy	
		TGE/GDP	years
AUSTRALIA	35,06%	80,3	AUS
AUSTRIA	51,06%	78,6	AUT
BELGIUM	51,15%	78,1	BEL
CANADA	41,19%	79,7	CAN
CZECH REPUBLIC	47,32%	75,3	CZE
DENMARK	55,32%	77,2	DNK
FINLAND	50,05%	78,5	FIN
FRANCE	53,37%	79,4	FRA
GERMANY	48,49%	78,4	DEU
GREECE	48,99%	78,1	GRC
HUNGARY	<b>49,06%</b>	<b>72,4</b>	<b>HUN</b>
ICELAND	46,54%	80,7	ISL
IRELAND	33,50%	77,8	IRL
ITALY	48,33%	79,9	ITA
JAPAN	38,51%	81,8	JPN
KOREA	30,86%	76,9	KOR
LUXEMBOURG	42,28%	78,2	LUX
NETHERLANDS	47,10%	78,6	NLD
NEW ZEALAND	38,12%	78,7	NZL
NORWAY	48,44%	79,5	NOR
POLAND	44,62%	74,7	POL
PORTUGAL	45,84%	77,3	PRT
SLOVAK REPUBLIC	39,38%	73,9	SVK
SPAIN	38,24%	80,5	ESP
<b>Average</b>	<b>44,70%</b>	<b>78,1</b>	



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