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Double movement and double dependence

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Contents

Abstract: *The paper starts with highlighting contributions by Polányi, Szelényi and Kornai to the economic systems research. Next it touches upon the debate about the European integration, highlighting social correlates of supranational regulation and redistribution. Finally it focusses on the phenomenon of double dependence on the European periphery. It argues that on the periphery of the EU the double movement of marketization and social defense mechanisms ended up in a model of double dependence where life chances depend upon markets dominated by transnational companies on the one hand and economic redistribution of the state on the other. The current developments in Polanyian terms can be interpreted as attempts to re-regulate the markets of fictitious commodities. The paper concludes that there seems to be an internal connection between double dependence, governing style and elite structure.*

Keywords: *dependent market economy, double dependence, double movement, European integration, elites, simulated democracy*

1. Three Hungarian contributions to the economic systems research: Polányi, Szelényi and Kornai

Polányi has bequeathed to posterity a rich arsenal of analytic tools of which I should like to stress two at this point. *Double movement* describes how the expansion of the market and the social defense mechanisms work. This is one strand of his legacy. The other is the *forms of integration*, which helps comparative economic analysis. Let me stress an aspect of the double movement: Polányi argues that a society based on the self-regulating market is a utopia and sharply criticizes economic liberalism, yet he does not discard the necessity of the market. His criticism is targeted at the outlook and social situation in which the market dominates the whole of society including work, land, money, that is, areas which by nature are not goods but fictitious commodities.

There is much attention devoted nowadays to the interpretation of the double movement and less to the forms of integration. Redistribution, one of Polányi's key concepts, is a form of integration which – together with reciprocity and exchange – provides the frame for the economy's processes of institutionalization (Polányi et al. 1957). Though Polányi mainly used the concept to historical societies, his sporadic remarks clearly reveal two things: one integrative form is not sufficient to exhaustively characterize a given historical economic formation, and also, that redistribution and regulation do have a role in the market economy. After all, he himself emphasizes that state intervention contributes to a considerable extent to the emergence and maintenance of the self-supporting market economy:

> *"True, once such a system is approximately achieved, less intervention of one type is needed. However this is far from saying that market system and intervention are mutually exclusive terms. For as long as that system is not established, economic liberals must and will unhesitatingly call for the intervention of the state in order to establish it, and once established, in order to maintain it."*
>
> *Polanyi 1957[1944] p. 149.*

On this subject, Iván Szelényi's work also exerts an influence on two counts. On the one hand, he claims that the notion of redistribution grasps the essence of the state socialist economy. Secondly, in his opinion the primary source of social inequalities is the given dominant form of integration, the rest of the integrative forms trying to recompense these inequalities. To put it in another way, these integrative forms are sources of inequalities of a different kind which may – but not necessarily – have a compensative effect. The point here is that through this perspective Szelényi linked the concept of economic redistribution as a dominant form of integration with the problems of social inequalities (Szelényi 1978).

This, in turn, is connected with two different interpretations of redistribution, and accordingly, there are two different approaches to redistribution in contemporary literature.

One is *economic redistribution* which describes the characteristics of the system and is of a fiscal nature in modern societies. It is predominantly concerned with the redistribution of the surplus collected as tax. The other approach – that of *welfare redistribution* – interprets redistribution in terms of social inequalities, trying to see how welfare programs and benefits influence social inequalities. The two phenomena are not independent of each other, as one source of income redistribution is fiscal redistribution, but they are not identical. In analyses of fiscal redistribution the focus is on how the state intervenes in the development of firms, economic branches and regions, and how it influences the functioning of the market thereby.

János Kornai used the concept of "bureaucratic coordination" – in contradistinction to market, ethical and violence-based coordination – to describe one type of the mechanisms providing a frame for the economic transactions, and he named Polányi's forms of integration as his intellectual source. From his early writings like "*Excessive centralization of economic leadership"* (1990[1957]) he has been preoccupied with the essential features of the economic-social system. This is manifest in his more recent writings too on the system paradigm (Kornai 1999, 2016). The combination of the types of economic and political formations offers useful principles of systematization for our theme. Though he alleges to be close to the analytic trend of the varieties of capitalism, he distinguishes – as a point of reference – between capitalism and socialism on the basis of primary and secondary characteristics. Among primary features he stresses those related to property relations and types of economic coordination, while among secondary traits he mentions those related to the typical condition of market imbalance (shortage vs. surplus) and its corollary features (such as the hard or soft budgetary constraint, the nature of innovation, the extent of social inequalities and the direction of corruption).

As for polity, he differentiates the types of democracy, autocracy and dictatorship, also on the basis of primary and secondary criteria. The primary characteristics include, in his view, the questions whether the government can be replaced in a peaceful way, whether there is a legal opposition, there are several parties or there is terror in the public life. Among the secondary features he names what political science (Diamond 2002) calls qualifying features beyond the electoral rules, among others the existence of checks and balances, the intactness of the civil servants, the freedom of NGOs and the media.

In Kornai's opinion these economic and political types are usually compatible, except for socialism and democracy. Socialism and democracy are incompatible in his view since under socialism power elites make peaceful replacement of the government by opposition impossible while enforce the hegemony of public property and bureaucratic coordination. What is more important for our present topic however is that capitalism can function under autocratic and dictatorial political regimes as well, to which issue I am going to return in the third part on the case of Hungary.

But let us first make a detour and examine how the international environment, the European Union can be interpreted with the help of the approaches and categories inherited from or influenced by Polányi.

2. Polányi and Hayek in Brussels

2.1. To the debate about whose vision has been realized in the EU

As Gareth Dale (2016) expounds in his critical analysis, Polányi distinguished between universal and regional models of international development in his historical overview, yet he showed little overt interest in the early stages of the European integration, even though he was passionately interested in the correlations of international economic and political processes. His followers and critics (often both in one person) frequently refer – for and against – to Polányi's notion of embeddedness and to the double movement when the integrative process is discussed. The moot point of the dispute was whether the process of integration would lead to the re-embeddedness of the market, whether an effective control of the market could develop, or conversely, the supranational government would give wider scope to the play of spontaneous market forces. At one end of the spectrum were those who believed that this regional unit would bring about the new embeddedness of the liberal market through a higher-level coordination. On the other side, the critics thought – improving on, and not necessarily discarding Polányi's conceptual arsenal – that the empirical arguments for embeddedness were insufficient and it was not Polányi but Hayek who had arrived in Brussels.

Some of Polányi's followers opined that contrary to the competition-based conception of society which often interpreted international relations, too, as duels between opposite forces, the European integration represented a social alternative. For some, this was manifest in the Social Protocol of the Maastricht Treaty (Dale, pp. 129-130). Others believed that the activity of the European Court of Justice was the supranational guarantee for the re-embeddedness of the liberal market economy, and that on this train of thought Polányi had arrived in Brussels (Caporaso-Tarrow 2009). Caporaso and Tarrow rightly argue that for Polanyi the concept of movement was more than the simple meaning of social movement and referred to a sort of ideological paradigm shift. They are also correct when stating that the state could have a primary role both in the move toward a market society and in the countermovement as well. They suggest that although the EU doesn't make a direct social policy, but via regulations it does: it can embed the market into the net of social purposes. They distinguish three meanings of embeddedness of markets: that markets are constructed by legal and social actors, that markets are embedded in compensatory social policy and that markets are rendered below legitimate social purposes.

Caporaso and Tarrow rely both on Polányi's double movement concept and Ruggie's notion of embedded liberalism (Ruggie 1982, see also Bohle-Greskovits 2012). Though

Ruggie conspicuously mirrors the influence of Polányi, the two concepts are not identical in scope. The authors are right in interpreting the double movement as a notion that refers to a broad historical process which implies both the disembeddedness of the market and the responses of society. Ruggie's approach is limited to the analysis of post-World War II international economic relations which include some elements of the double movement but they have a far narrower scope than in Polányi's original conception. There is an ambivalence in Polányi's idea of the disembedded market in itself as well. He argued in *The Great Transformation* (1957 [1944]) that the disembedded market is a utopia. At other places of the *magnum opus* and also in the *Trade and Market in the Early Empires* volume (Polanyi et al 1957) the dominance of the profit maximizing actor and consequently the disembedded market are valid for a narrow historical period (to this, see also Lengyel 2016).

Deviating from the embedded liberalism vision, some scholars voiced that even a legally regular integration was unfavourable for the market's chances of embeddedness because changes of different pace and direction were taking place in the dimensions of market shaping, market enhancing and nondiscrimination (Höpner-Schafer 2012). The heterogeneity of the participants delimits political and fiscal integration, but it does not obstruct integration by international law. An integrative process based on legal cases may be effective in the deconstruction of the market constraints and the curbing of workplace discrimination, but – the authors argue – can do little to strengthen the solidarity-based ties of the participants. This, and the constraint rooted in heterogeneity, is not specific to the EU but is a general feature of regional integration. The activity of the ECJ, on which Caporasco and Tarrow based the emergence of the embeddedness of the market can only be interpreted – in the opinion of Höpner and Schafer – as a subcase of embeddedness; more precisely, as a subordinated criterion which may, however, correct the functioning practice of an embedded market economy sometimes, as they illustrate it with some cases. All in all, their position is that the

European integration does not point toward the re-embeddedness of the market, since the supranational level is incapable of solving a unified social policy that may bring the rights and duties into equilibrium.

In his synthesizing work over half a thousand pages Perry Anderson (2009) leaves no doubt that for him the EU is the embodiment of Hayek's legacy, the consummation of the liberal market economy. Referring to the closing chapter "The economic conditions of interstate federalism" in Hayek's *Individualism and Economic*, a collection of papers written in 1939 and republished in 1948 (Hayek 1948[1939]) he claims that contrary to general opinion Hayek did not understand the federalist solution, the supranational control as the constraining of the free market, but conversely he saw it as the possibility to consummate a spontaneous market order. This vision was based on the comprehension of advantages and the presumed influence of heterogeneity. Unlike the nation state which is capable of bringing the majority principle to bear through the "nationality myth", a federalist state of heterogeneous composition cannot, or can hardly, rely on such an identity:

> *"It is rightly regarded as one of the great advantages of interstate federation that it would do away with the impediments as to the movement of men, goods and capital between the states and that it would render possible the creation of common rules of law, a uniform monetary system and common control of communication.…the central government in a federation composed of many different people will have to be restricted in scope if it is to avoid meeting an increasing resistance on the part of the various groups which it includes."*
> Hayek 1948[1939] pp. 255, 265

In this writing of 1939 Hayek argues that the interstate federation's main aim is to ensure peace, which the federalist model can achieve by solving conflicts by negotiating. A precondition for a political federation is, he says, an economic union, for international trade relations are an integral part of the international relations. A unified market is also important for a common defense policy: any hindrance in the path of trade means the suboptimal utilization of joint defense. The most important argument for economic integration is that otherwise any obstacle in the way of the “free movement of men and goods” may be transformed into a conflict between states instead of being a conflict between groups of frequently changing composition.

Anderson traces Hayek’s relevant ideas in the whole oeuvre and also documents that Hayek later turned away from the pro-federalist principle, discerned dangers in the denationalization of money and opposed the creation of a single currency.

Empirically based research findings reveal that the creation of a single market has had an appeal to multinational large companies. The rates of crossborder investment, sales and employment within the EU significantly increased from 1987 to 1997 (Fligstein 2010[2008]). A summary written after the joining of the East European countries but before the recession reported that these countries had successfully avoided the trap of interwar Praetorian politics and strengthened the institutional conditions of constitutional liberalism (Zielonka 2007).

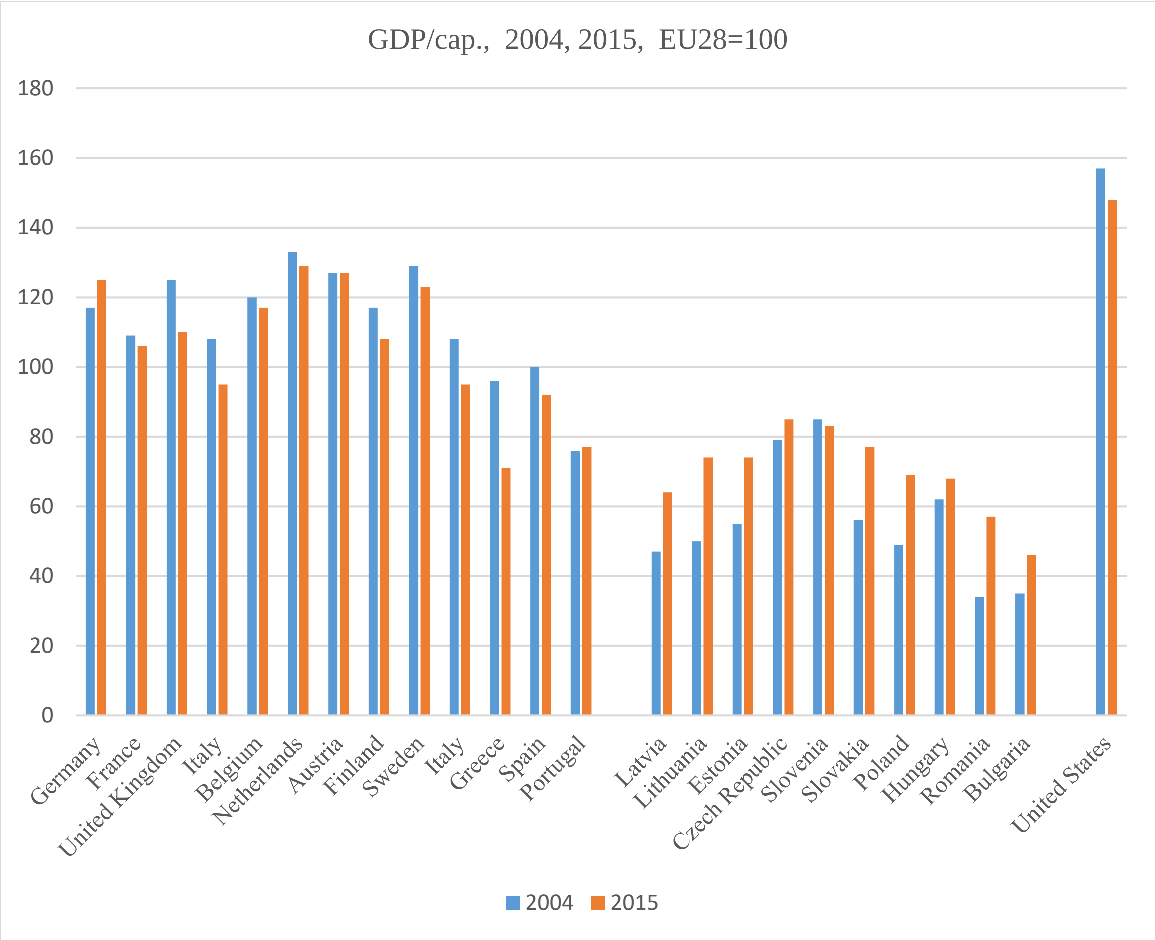
Nonetheless, the question remains unsettled: to what extent was the European integration aimed at a liberal market economy and to what extent was its goal a model based on the embeddedness of the market? Also, what are the social effects of this process? To answer the first question would need an historical textual analysis, which is beyond the purview of this paper. The second question, that of the social correlates, can be exposed with simpler statistical tools for a start.

A look at the changes in per capital GDP clearly reveals how the individual countries’ relative position has changed since 2004 when seven post-socialist countries joined the EU. To start with, we have to note that the relative position of EU as a whole has somewhat improved compared to the USA (where the average per capita GDP is still one and a half times higher than in the EU).

The relative position of the majority of the core countries and the Scandinavian countries was stagnant or just changed slightly, but that of England, Finland and most of the Mediterranean countries considerably deteriorated. We must add that even so they were and still are in a better position on the average than the post-socialist countries.

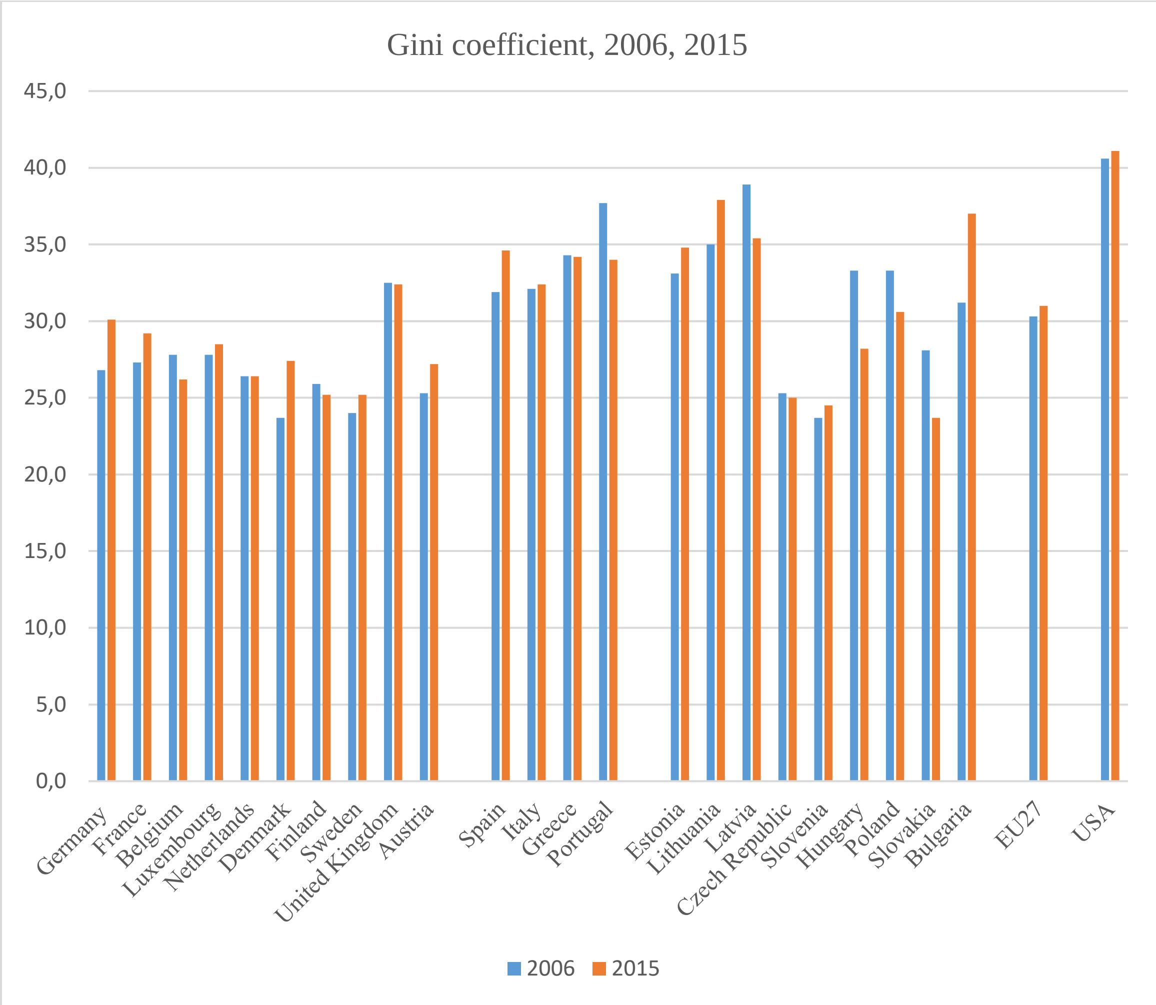
Obviously, in the year of entry each of the East European countries was worse off than the EU average and each admitted country has improved its relative position, though to different degrees. Most spectacular was the improvement in the Baltic countries, which were placed around half the EU's virtual average when they joined, and in the next period their relative position has risen to over two-thirds of EU average. Also conspicuous was the improvement of Slovakia and Poland, as well as Romania and Bulgaria, the latter two joining later from a low position at about one-third of the EU average. There was moderate improvement in Slovenia and the Czech Republic, both joining EU close to the EU average (80%), as well as in Hungary whose relative position rose from 62% to 68%. Sure enough, despite the improvement of their relative position, all East European countries are still worse off than the EU average regarding per capita GDP.

That said, it would be mistaken to ascribe all improvement in the relative position of the countries to the influence of integration. There was namely a 5-8% improvement in the successor states of ex Yugoslavia and in Albania which started from a considerably worse position, while Turkey bettered its relative position from 39% to 53% in the same period.



source: http://ec.europa.eu/eurostat/web/national-accounts/data/main-tables downloaded 11 11 2016

On the whole, differences between the countries somewhat decreased. Another important aspect is to see how social differences within a country have changed. For a start, let us note that in the EU countries social inequalities were far smaller on the average than in the USA. In the past decade, in most West European countries these inequalities slightly increased or stagnated, but the increase of the Gini index was more considerable in Germany, Austria and Denmark. The above-EU average inequalities in the Mediterranean region have changed diversely: in Italy and Greece the rate did not change, in Spain increased and in Portugal considerably decreased.



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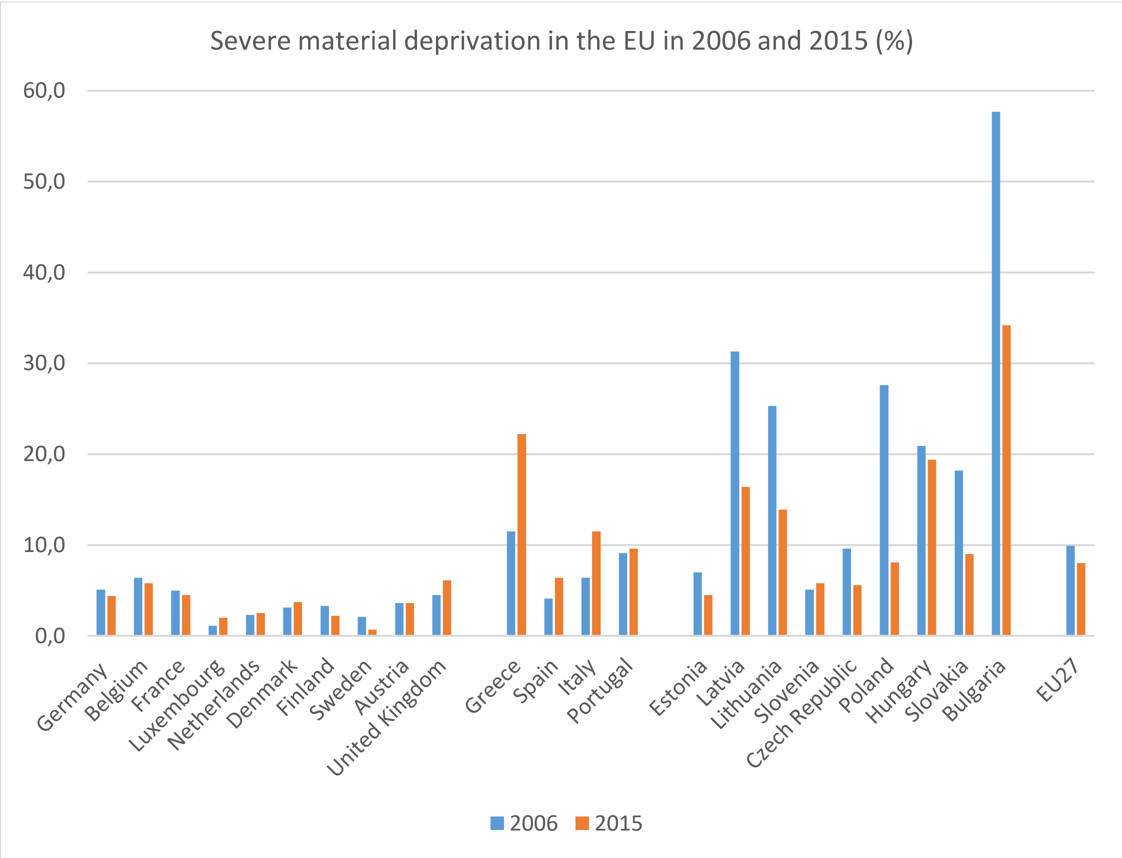
As for post-socialist countries, in the Czech Republic and Slovenia, where the inequalities index was the lowest and the per capita GDP the highest, there was no noticeable change. In the Baltic region social inequalities were extremely large. They further increased in Lithuania and Estonia, and decreased in Latvia. The Gini index shows a decrease for Hungary, Poland and Slovakia and a marked increase in Bulgaria. With the involvement of subtler income and deprivation indices (Kis-Gábos 2016) the overall picture could be more shaded, but the tendency would not significantly change.

As regards post-socialist countries, it is to be remembered that in the period of state socialism the moderate social differences were coupled with wide-spread severe deprivation on the one hand and job security on the other. People wanted to keep the sense of security and equality while did hope to abandon the severe material deprivation in the short run. What they got was growing insecurity and inequality with moderately improving severe deprivation. The abolition of this deprivation-constrained security and moderate inequalities was the shock of the 90s. Compared to that, joining the EU also awaited with heightened expectations caused less disappointment.



Source: Eurostat, http://appsso.eurostat.ec.europa.eu/nui/show.do?dataset=ilc_mddd11&lang=en downloaded at 11 11 2016. Severe material deprivation of households is defined by facing at least four problems out of the following nine: paying bills, unexpected expenses, holidays, eating, heating, having a washing machine, television, car and telephone.

The proportion of people living in severe deprivation significantly decreased in most of the post-socialist countries after joining to the EU. The drop was most spectacular in Poland, in the Baltic states, Slovakia and Bulgaria. In Hungary the proportion of severely deprived remained around 20 % , while in the much better off Slovenia slightly increased. In the meantime in the EU as a whole severe deprivation decreased below 10 %. In most of the core and Scandinavian countries the proportion was and remained below 7 %. In most of the Mediterranean countries the proportion was below 10 %, but due to the impact of the financial crisis the originally low deprivation rate has increased: in Greece and Italy the proportion of severe deprivation has been doubled in the last decade, while in Spain and Portugal moderately emerged.

2.2. Regulation and redistribution

The Hungarian colloquial language has a term coined in the early 21st century to express this disappointment: to Brusselize. It means to blame Brussels, to express dissatisfaction with the European integrative process. Depending on the habitus and outlook of a person, the notion has diverse connotative shades. It is generally the vulgar criticism of the faraway centre for something that is close by, visible and its criticism would be embarrassing. Brusselizing is also a critique of the impotent centre that is incapable of effectively stemming the anomalies experienced in the national society. Apart from these weak voices, a multiple times louder voice is that of the combatant political rhetoric searching for an enemy image which compares the role of Brussels to that of Moscow in the socialist era. This view is principally fed by the political propaganda and media with such success that in the extreme rightist political subculture it means the condemnation of the hostile or unjust imperial centre.

As regards financial redistribution, the EU takes a defensive position. In its popularizing publications the central budget appears as one that is smaller than Belgium’s budget and less than the price of a daily cup of coffee per head (EU budget at a glance 2015). Analysts attribute greater significance and efficiency to regulation than redistribution. Anderson discusses at length Majone's contribution, who pinpoints the specificity of EU in the capacity of regulation, as against the insignificant redistributive and coercive capacities (Anderson p. 105 sqq.). One should add, Majone (2012) is clearly against - as he calls - the "*strategy of fait accompli*" of EU elites' federalist ambitions.

Though Brussels is present in the everyday discourse with diverse negative connotations and some political elites try to popularize themselves with the insignificance of the centre on their banner, empirical investigations draw up a more sophisticated picture. The policy-making and redistributive preferences of European elites can be inferred from empirical investigations based on political and economic elite samples (Best et al. 2012). Here, only data concerning political elites – MPs – are taken a look at.

This reveals that elites are ready to delegate the policies of a transborder nature (problems of migration and environmental protection) to the supranational level, but they wish to keep taxation and welfare policies at national level (Real-Dato et al. 2012). (It must be added that since the refugee crisis the attitudes to migration have also polarized and it is beyond doubt that in critical situations the elites' view on the levels of policy-making may change considerably (Göncz-Lengyel 2016)).

It must also be seen that centralized redistribution has a hidden potential, too. Both the elites and the population at large would find an over six times larger rate of supranational redistribution than the current GDP-proportional level of 1%. The significance of these empirical surveys cannot be emphasized enough. While analysts define as the main asset of the EU its regulatory capacity as against redistribution, the research findings show the other way round. The national elites insist on keeping the welfare-sensitive policies at national level, but their sense of justice would not be marred by a far larger supranational redistribution. This is buttressed by both pre-recession and recent research findings. The Hungarian and Bulgarian elites would see 12-13% of the collected tax allocated at EU level as fair, the corresponding German and Italian expectations being 20-22%, as a comparative survey of 2014 reveals. Similar rates were found in the Hungarian population with various surveys: between 2008 and 2015 the acceptable rate of EU level redistribution oscillated between 12 and 16 %.

These elite and population surveys have exposed the limitations of EU's regulatory and redistributive capacities. Redistribution is found insignificant and regulation asymmetrical. By virtue of the unified rules and standards regulation was undoubtedly effective in the period of negotiations preparing a country's joining, when the removal of the market constraints, the negative integration (Scharpf 2010) was on the agenda, and it was less effective for positive integration. In Polányi's terms, for the first wave of the double movement the EU provided an adequate regulatory framework, but it does not possess adequate tools to coordinate the countermotion, the development of social defensive mechanisms. Single market is not counterbalanced by the efforts for (not to mention practice of) single welfare policy and – as Crouch (2013 p. 30.) put it – labour rights and social policy are being seen through the lens of the market perspective, as constraints on corporations. The foundations of both an effective fiscal policy and a unified welfare policy are missing. So it seems from the perspective of the East European periphery that the protagonists of the countermotion of the double movement are the governments of nation states.

3. Double movement and double dependence on the periphery

By ensuring the free flow of men, goods and capital, the European integrative process certainly followed more closely Hayek's blueprint. But did Hayek's early presumption – that the integration "*will lead to a superstate, but less state*" (Dale p. 136) – come to life? No trace of it can be found in Eastern Europe. In the periods of the restriction of the market and privatization the state had the leading role within the double movement. This is what decisively influences the extent of the market and the conditions of its functioning is neither any intellectual current or ideology, nor a social movement, or the parties or the parliament, but it is the governments, possibly also influenced by the mentioned actors.

A society on the periphery of EU is doubly dependent. It depends on the multinational firms on the one hand, and on the state, on the other hand. Double dependence is structured because both the domestic and the international organizations are present in both poles. But do we have accurate knowledge of how the EU membership restricts a government and how a local firm is restricted by a multinational company center? Is there a proper principal-agent model that can grasp this two-level double dependence together with the intricate information and influence asymmetry it implies?

If one agrees with the thesis derivable from the works of Polányi and Szelényi that the main source of inequalities is to be sought in the dominant form of integration, than one should state that this dominant integrative form in the EU is the single market. It can be influenced by supranational redistribution and regulation with limitations only. The Hungarian case demonstrates that within double dependence, the state wishes to restrict the market actors, mainly on the markets of *fictitious commodities*. It is clear that the increasing public employment, state ownership of the land, regulation of banking and public utilities in Polányian terms can be interpreted as attempts to re-embed these markets.

The state influences the tendency of market changes through regulation, selective incentives, welfare and economic redistribution (social policy and investment). Regulation means in the first place the assertion of the EU rules and thus constitutes as the frame condition for the single market. The new Hungarian labour code is also in support of it, being favourable for employers and aggravating the interest assertion of employees and the activity of the weak trade unions. The extensive communal work program is an important intervention for the building out of a workfare regime.

Another part of the regulation does not serve the harmonization of rules and standards but promotes different government intentions. This regulatory ambition and selective encouragement is branch-specific – such as the special taxes levied on the banking and public utilities sector – and restricts as their implicit goal the dominant international companies in these sectors. Similarly sector-specific is the regulation of land ownership and the practice of leasing out state land, with selective incentives for proprietors.

State proprietorship is below ten percent in the Hungarian economy but in several strategic branches it is over one-fifth. The role of the state is more important in investments: the rate of state investment is nearly half that of the private investments. About half the state investments were realized from EU resources, and the amount invested through EU redistribution was beyond the FDI rate. Contrary to international practice, the overwhelming majority of state investment was centrally controlled, and more than half of this market was covered by companies which were prioritized in the public procurement processes (Bank 2016). The paradoxical outcome of the integration process is that state intervention has increased after the entry into the EU, using the EU resources gained from economic redistribution. Due to inefficiencies of supranational regulation and weakness of civil society (Ágh 2016) it can be done by displaying signs of bad governance, crony capitalism and state capture (Kornai 2016, Martin 2016).

The essential question is not quantitative, but qualitative by nature. Not the Hayekian more or less state, but the problem of good or bad governance is the crucial one. There are several attempts to grasp the nature of the contemporary Hungarian political regime. We described its' initial phase as simulated democracy with reference to the fact that the political elites breeched norms and only simulated the democratic rules (Lengyel-Ilonszki 2010). Another term applied to it was leader democracy (Pakulski-Körösényi 2012) claiming that the democratic procedural rules only applied to those rallying around the leaders. The prime minister himself called it illiberal democracy possibly under the influence of Zakaria's work (1997), offering thereby a textbook example for the study of "unintended side effects".

The dilemma of redistribution versus regulation alludes to a real problem. The rate of supranational fiscal redistribution is small; as seen above, in principle even the national political elites would also accept a higher rate. As the statistics suggest this low rate of redistribution and the regulation contribute to the slow levelling out of differences between the countries, and they have diverse influence on inequalities and investments inside the countries. However, there is more to this problem than that: the tendencies of bad governance is closely related to the disrupted consensus between the elites, which drifts the system not simply toward illiberal democracy but toward electoral authoritarianism. Some scholars, including myself (Lengyel 2014), suggested that in Hungary after the collapse of the elite consensus an authoritarian system is in the making. Others, like Kornai describe the Hungarian political system as an already established autocracy.

It does sound plausible that the international changes are mostly influenced by movements of global capital and the relationship of great powers. The periphery of the EU however is not only the buffer zone of world powers, it is a laboratory as well. It is a laboratory in which the state's attempt to control spontaneous market forces goes together with the disruption of elite consensus, accumulation of social tensions, permanent mobilization, the strengthening of authoritarianism and populism. From a bird's-eye-view this may appear to many a familiar mixture, a combination analyzed by Polányi under the headlines of the "Revolutionary 30s" and "History in the Gear of Social Change" in *The Great Transformation*. Others may claim that the new phenomenon is specific and needs novel analysis, as it is framed by the European Union which itself is the outcome of collective learning and remembering. Will collective memory last more than three generations? Not the memory of myths and legends, but that of life experience, norms and convictions.

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