

Paper Presented at the 2019 ASN World Convention, Columbia University 2-4 May 2019

Do No Cite Without the Permission of the Author(s)

A socio-legal explanation of everyday corruption practices in the Hungarian context: new trends vs the relevance of a post-socialist past

Fanni Gyurko, PhD candidate, University of Glasgow

Abstract

In this paper I address patterns and trends of corruption in a Central Eastern European (CEE) country, Hungary, through a socio-legal perspective. I explore the connection between corruption and the rule of law, using the socio-legal theories of Ehrlich's living law and legal pluralism. The research is situated within literature on low-level corruption, informal practices, and post-socialism. This paper is based on 25 in-depth interviews (with 13 Hungarian long-term local citizens and 12 British expats who have lived in Hungary for more than 5 years), conducted in Budapest between April 2017 and August 2018. This paper provides a new angle to explore understandings, perceptions of corruption, because it considers the migrants' perceptions as well as those of the long-term local citizens.

Key words: informality, corruption, post-socialism, Hungary

Introduction

Corruption in Hungary remains a problem, as it does in other CEE countries. Anti-corruption measurement tools, such as the Transparency International's Corruption Perception Index, showed a regression in Hungary's standing since 2015. Although in 2018 the country scored one point higher than in 2017, it remains 29th from the 32 countries in the region of Western Europe and European Union (TI CPI, 2018). This result is paired with a democratic backsliding that is widely recognised by international organisations and discussed by the media in the recent years.

The literature usually explains the existence of corruption and informal economic practices today, by Hungary's post-socialist past and the structural inefficiencies emerging from the democratic transition and EU accession (Karklins, 2002; De Ridder, 2009; Georgiev, 2013). Hajnal, Kadar and Kovacs (2008) suggest that during socialism, low-level corruption functioned to facilitate state-society relationships to ensure that actions of public administration and public service that otherwise ought to happen, would in fact take place. Lomnitz (1988) notes that in the state-planned economy, the use of personal connections has been recognised as a central strategy to overcome shortages caused by the inefficiencies of the system. In connection with the transition phase Jancsics (2015) suggests that the economic insecurity following the socialist era and global recession, combined with the new political regime, can be the cause of rising corruption. It is important to note that informal transactions proliferated during and after the transition process and also after the EU accession (Wallace and Latcheva, 2006; Mungiu-Pippidi, 2005). Nijuten and Anders (2007) stress that in new EU Member States with a socialist legacy, the people's actions are influenced by multiple, alternative (to the state law) norms which often results in plural (or conflicting) normative orders.

Everyday corruption in Hungary is a complex phenomenon and indicates the existence of practices and behaviours that contradict with the formal regulations, but that are widespread and accepted by a significant part of the society. This means that the state does not have a monopoly on law, because there are normative orderings that are not attached to the state which nevertheless are law (considered as binding)- this is referred to as legal pluralism in the socio-legal scholarship (Merry,

1988 ; Griffiths, 1992; von Benda-Beckmann, 2002; Nuijten and Anders, 2007). Informality from the socio-legal perspective manifests in rules which are not posited by the state – that is, the law as it is lived (Ehrlich, 1936). The differing normative orders not only co-exist, but come into contact and clash, and therefore Ehrlich's 'living law' and legal pluralism will provide the theoretical framework for this paper. Using a socio-legal theory enhances the understanding on how informal transactions work, in terms of the actors, the rule of informal norms, learning and obeying these norms.

In this paper I explore patterns and trends of corruption in Hungary, through a socio-legal perspective. I examine the connection between everyday corruption and the rule of law (formal and informal) and how the environment (post-socialism and democratic backsliding) encourages and generate certain practices. While the post-socialist context cannot be ignored, 30 years into democratic transition it is necessary to address to what extent the democratic backsliding and people's perception of the government corruption contributes to the widespread everyday corruption today.

For exploring these issues, the starting point is the people's perception. I consider the reasons and explanations that long-term local residents and British migrants addressed when talking about everyday corruptin. The British migrant's perspective is particularly interesting, because as they move between social settings they learn the new norms, formal and informal rules of the local context. Also, the British migrnats did not live in Hungary during the socialism, therefore their knowledge and impressions on socialism is based on the local's explanation. Their lack of the experince with state-planned ecnomy and the informal economy during the socialim makes them observe the informal practices today through an original lesne. In this paper I consider the British migrants' original view on everyday corruption and informality, but I do not engage with discussion on specific issues of migration.

In this paper after presenting a brief overview of the literature on post-socialism, informality and everyday corruption I provide a conceptual framework that addresses the notion of everyday corruption and the importance of considering the informal practices in a socially acceptable and not acceptable framework. In the discussion section I explore new trends and patterns of everyday corruption in Hungary, as it was explained by the participant. The main categories for the discussion are (1) living standards, (2) legal and administrative pressure (inadequate legislation) (3) lack of trust or perceived corruption of the government. I analyse these trends separately as the source of problems and practices generated in framework of acceptable and not acceptable practices applying living law theory and legal pluralism. Finally, I present the conclusion of the findings.

Context

Post-socialism

This paper engages with the literature on post-socialism, informality and everyday corruption. Recent research (Morris and Polese, 2013) which considers post-socialism reveals that informal economic practices developed and even proliferated (Mungiu-Pippidi, 2005) after the democratic transition and joining the European Union. When the state capacity is weak, such as in the post-socialist context, it is more likely that informal structures provide governance (Polese, Kovacs and Jancsics, 2018). Social ties, relations, second economy, informal economy, trust-networks, the usefulness of having a 'friend' (Jancsics, 2015) are all part of everyday reality today in countries with a socialist past (Polese, 2008). Lampland (2002) argues that there is a need for a more nuanced understanding of economic transition and the formal-informal divide in post-socialist social settings. Going further, Routh (2011) suggests that it is often impossible to separate out the formal from the informal (Routh, 2011: 217): they are, in the post-socialist context at least, symbiotic – often to the degree that mutualism (in the sense of mutually 'benefiting', a concept borrowed from biology) results (Polese, 2013:3). This means that not only do formal and informal practices overlap, but that formal and informal rules, legal plurality, and competing normative orders exist.

Hungary specific

The scholarly interest around informal economic practices in Hungary focuses on areas where it is most prevalent, such as the police (Kremer, 1998), health care (Gaal, Evetovits and McKee, 2006; Szende and Culyer, 2006) and the interaction between state officials and citizens (Jancsics, 2013, 2015) – i.e. where citizens and state officials interact more intensively on a daily basis. It is possible to argue that informal transactions often do not go further than might be expected in the context of a 'friendship' and viewed positively (Jancsics, 2015). There is also a reciprocity of exchanges, which shows the social embeddedness of economic practices within a wider economy of social relations (Lonkila, 1997). Thelen (2011:52) notes that the 'arranging of matters' (goods, access, information, services) was essential under the shortage economy of late socialism when formal supply channels simply did not work. This was an accepted and everyday practice founded upon the networks of friends and family who made up one's personal circle (Humphrey and Mandel, 2002). Similarly, Humphrey (2002) argues that the use of personal connections to bypass the regulations and obtain benefits was so common that it was integral to state-planned economies, which could affect practices and perceptions in contemporary Hungary. Distinctive forms of non-monetary exchange, the kind of barter based on personal relationships that Ledeneva (1998) describes as 'blat' relations in a Russian context, were widespread in socialist Hungary, which were based on reciprocity.

Corruption and informality

Corruption is commonly defined by international institutions such as the World Bank or Transparency International as the abuse of public office or entrusted power for private gain (Langseth and Stapenhurst, 1997). One-sentence definitions might serve the purpose for these organisations, however social scientists working with the terminology recognise its complexity. Corruption is socially constructed and it is important to consider the local context when examining it (Zerilli, 2005; Lovell, 2005; Haller and Shore, 2005 and Gupta, 2005). This means, that when studying corruption, it is important to taking into account both formal-legal definitions and morally and culturally produced definitions of corruption, which may include both more and less acceptable practices and behaviours. Corruption concerns particular incidents involving the exchange of money or favours, with the goal of acquiring a personal advantage (Polese, 2008). At the highest level of generalisation, informal economic practices are defined as activities that are not 'regulated, monitored or controlled directly or indirectly by the state' (Routh 2011: 211).

Informality is a wider category than everyday corruption. I suggest that performing the informal practice can result in deviation from formal rules, or deviation from informal rules that a group of people recognise as binding between them. It is this deviation that makes a practice corrupt. However, if the practice stays outside the formal and informal rules and does not deviate from them, it remains simply informal without the characteristics of corruption. Informal rules do not need to be posited by the state (written, formal law) to be binding for a group of people. This plurality of human beings, who in their relationships with one another recognise certain rules of conduct as binding, and regulate their conduct according to them, is referred to as a social association (Ehrlich, 1936) in the socio-legal scholarship. In this paper I consider other forms of regulations - i.e. not only laws codified by the state - because several alternative and even conflicting normative orders exist within a specific domain of social interaction (Anders and Nujten, 2007:13). Legal pluralism acknowledges the co-existence of multiple sets of rules that influence people's actions: the law of the nation-state, indigenous customary rules, religious rules, moral codes, and practical norms of social life often apply to the same situation, thereby creating complex configurations of legal plurality within a social setting (Anders and Nujten, 2007; Benda-Beckmann 1992; Griffiths 1986).

Conceptual framework

Definition of everyday corruption

In this section I provide a socio-legal definition of corruption, which serves as the conceptual framework for this paper. I refer to practices as everyday corruption, which describes their essence (i.e. part of people's everyday life), rather than using definitions which focus on the amounts of money lost (petty or grand corruption) or the sector where it occurs (public office or political corruption). I argue that it is not the amounts of money involved that binds these practices together, but the use of informality when performing them in order to gain personal advantage. People who benefit could be friends, relatives or even a wider group of people (formal or informal organisation). Another common aspect of everyday corrupt practices is that the purpose of the practice is not to gain substantial economic and material advantage, but rather to make sense of a situation and use informality when people perceive that formal rules cannot adequately satisfy their needs. In post-socialist countries this can be described by the lack of the state control in some sectors, and therefore informal person-to-person interactions make it possible to overcome several dysfunctions in a system where the state is perceived as weak or not functioning (Polese 2016, Williams, 2015).

Informal economy and everyday corruption

The literature identifies the following reasons for the existence of informal economy: (1) mismatch between the formal and informal institutions operating in the society (2) high taxes and tax avoidance as its consequence (3) legal-administrative pressure (4) bad government and poorly performing institutions (Williams and Horodnic, 2016).

Informal economy understood as activities that are legal in nature, but informal, because participants do not declare them. Based on the collected data, informal economic practices are complex and often do not appear in separation from illegal activities. However, practices that are against the formal law can be regarded as acceptable by the participants. Based on the reasons for the existence of informal economic practices identified in the literature the main narratives that participants mentioned can be categorised as (1) inadequate living standards, (2) legal or administrative pressure (inadequate legislation) and (3) lack of trust in the state institutions or perception of wide-spread political corruption. When participants provided an explanation of their everyday practices these three narratives often merged into one, which is not surprising, because complex practices require a complex explanation. Informal economic practices can't be performed without other types of informal practices or facilitating mechanism. These are for example: bribery, pulling informal favours (asking friends or relatives) or using relationships that requires long-term reciprocity (uram-batyam relationship). To be able to take part in the informal transactions people need to know the formal and informal rules or norms. From the socio-legal point of view it is more useful to examine the practices in a framework, which allows that there are socially acceptable practices that are against the formal regulations as well as practices that comply with formal regulations but are not socially acceptable. Rather than simply listing practices, I will analyse them in the framework of acceptable and not acceptable practices applying the socio-legal theory of living law and legal pluralism.

In this paper I consider engaging with everyday corruption and informal economic practices as a problem-solving mechanism. Therefore, I will present and discuss the data in two sections: as source of problem and practices generated.

In this paper I do not try to measure the actual size of informal economy in Hungary, rather I try to show the context that encourages, generate certain practices.

Methodology

The data was collected between April 2017 and August 2018 as part of my PhD project. During three fieldwork trips I conducted 25 in-depth interviews with 13 Hungarian long-term local citizens and 12

British expats who have lived in Hungary for more than 5 years. The location for the data collection was Budapest. The starting point for the recruitment was my own social network, but I employed snow-ball sampling, that meant that I had no previous relationship with most of the participants. I conducted in-depth unstructured interviews lasting about one hour. The interviews were audio recorded when the participant consented (about two thirds of the participants), otherwise I took notes. The interviews are anonymised, and the participants are referred to with a pseudonym to protect their identity. All participants signed a consent form after reading the Participation Information Sheet, that is a procedure to comply with the ethical standard of the University of Glasgow. The interviews were transcribed continuously during the fieldwork or shortly after the data collection. I conducted the interviews in the participant's native language, Hungarian or English, but I transcribed them in English. During the transcribing I paid particular attention to expressions that have a special meaning in Hungarian and tried to make sure the translation was as close as possible to the original meaning of the participant's account (Gawlewicz, 2016:12). The majority of the interviews took place in public cafés, but two took place in the interviewees' office. I recruited participants with diverse social and demographical background. There were 14 male and 11 female participants, aged between 26 and 67. I identified the following occupations when categorising the data: self-employed, entrepreneur, student, trades man, teacher, retired, academia, civil servant, working for a big company.

The starting point of the unstructured in-depth interviews were the people's perception on what contributes to the existence of everyday corruption today in Hungary. When people talk about their everyday life that involves taking part in informal practices, they try make sense to their everyday reality. By doing that they provide an explanation of their reasoning and describe their perception of everyday corruption. This method is useful to gain a better understanding of the nature of everyday corruption in Hungary. I coded the data with the help of Nvivo, analysing software, using a coding framework which based on inductive and deductive methods- codes based on the literature and themes organically emerging from the data.

Discussion

1. Living standards

1.1. the source of problem

The discussion on inadequate living standards was centred around low wages, problems with the welfare system, such as low pensions, informal payments in the health care sector and using personal connection to access health care services, that are guaranteed for citizens by paying social contribution. High income taxes (15%) and social contributions (18.5%) were also mentioned in connection with the living standards. British participant, Rose (35) expressed her confusion about the discrepancies between people's salaries and that people can actually spend.

"People talk to me about their salaries... they earn minimum salary [after tax 91.770 HUF (2018)] or just over and the property prices are very high. I mean if someone earns 120.000 HUF a month and a small studio apartment costs 160.000 HUF, how would people live or make ends meet without corruption? The price is set according to what people are willing and able to pay, so where do they get that much extra money?... it is still unclear for me..." (Rose, 35, academia, female)

The same phenomenon was addressed by Kemeny (1982) who provided a classification of unregistered economic activities in the socialist Hungary. The rent paid for the flats was generally several times higher than the basic monthly earnings (Kemeny, 1982:350). In the socialist system this discrepancy can be explained by the existence of dual system of the official state jobs and informal part-time jobs, that contributed to the redistribution of wages (Kornai, 2006). By the second half of the 1980s about three quarters of the Hungarian adult population participated in a sector of the second economy and more than 20% of household incomes was generated through this second economy (Andorka, 1993:326). A study from 2003 estimated the share of unregistered employment at 17% of the labour force, while more than half of employees reporting earning at the minimum wage in 2003

in fact received about one-third of their actual pay in a “brown envelope” (Elek et al. 2009). According to the Special Eurobarometer 2014 on undeclared work in the European Union, 6% of the Hungarian employees reported that they get some part of their salaries in cash in hand. 6% does not seem that high compare with the wide-spread practices in the socialism, but it is still one of the highest in Europe.

The quote also refers to the fact that a significant number of people earn minimal wage or close to minimal wage. According to the statistics less than 10% of the employees worked for minimal wages officially in 2018, but it is just an estimated number because the measurement of the second economy is difficult. Also, many people work for just couple of 1000 HUF over the minimal wage (HVG, 2018). In 2018 the minimal wage before tax was 138.000 HUF and after tax is 91.700 HUF. The employer has to pay additional 20.1% tax or social contribution, therefore the total cost that the employer pays is 167.670 HUF from which the state receives 75.900 HUF. To legally employ someone, is expensive. The tax (33.5%) of the original salary contains a health care contribution, which is 7%. It means that for tax payers the state health care services are free and guaranteed. Social contributions (for pensions, health, and later for unemployment insurance) are partly paid from (and withheld from) wages paid to workers, but mostly paid on wages by employers (Lelkes and Benedek, 2011:10).

Low salaries are a big problem in the public sectors, such as health care, education, civil service. Therefore, for example health care professionals are contributing to their salaries by accepting gratitude payments. While there is no generally accepted definition of informal payment, its most common form involves patients paying physicians and other health workers out-of-pocket for services that they are entitled to receive free of charge, usually in a publicly financed system (Balazs, 1996). This is a widely discussed topic by the literature along the lines of gratitude payment or fee for services (Szende and Culyer, 2006). The most convincing debate is on the coercive factor of the informal payment (if it is demanded). If the informal payment really a gratitude payment, it should not be a barrier to access health care (Gaal and McKee, 2005:1455). Regardless the debate, for citizens, the system of ‘thank-you-money’ means that they need to pay for services that are legally due and free for them. Paying ‘thank you money’ is accepted. However, informal payments in the health care are an acceptable practice in Hungary.

Low-salaries effect all state funded sectors. There are government initiatives time to time to equalise salaries between the private and state sector, or at least narrow the gap. This triggered by several factors, such as young professionals leaving the country, less people want to work for the state sector and industrial actions. However, an average public servant’s salary is still not enough to guarantee high living standards.

“I am earning quite well compare with the Hungarian average salary... In our office there wasn’t any increase in wages in the last 8 years and many colleagues left to the private sphere. So, to prevent the fluctuation of employees they tried to increase salaries. It meant that additional to the yearly food support (cafeteria) we get some money for buying clothes once a year, and in every quarter year we get so called welfare subsidies for example food vouchers, or voucher for free time activities. So this way my salary is decent, but I have to say it is still not enough for example for buying an apartment in a time that I can comprehend, in the near future, so I would like to have a small job on the side.”
(Maria,35, Hungarian female, civil servant)

It is common that instead of monetary increase the employers provide food and holiday vouchers because originally, they belonged to a more favourable taxation category. However, with gradual increase in taxation over the years for 2019 their taxation will be higher (34.5%) than the tax after the traditional wages (Piac&Profit, 2018)- this is ratified by the Parliament when member of the parliaments voted on the yearly taxation and budget. For complementing her salary, besides her full-time job Maria (35) would want a second, part-time job. While in the socialism most of the people’s salary came from the second economy, today still there are practices that indicates that certain amount of people salary comes from informal activities. Maria’s intention to take a second job after

working hours of the principal job mirrors the existence of the shadow economy during the socialism, when taking a second job was semi-legal and tolerated (Andorka, 1993:325). She considers taking the second job 'on the side', which refers to undeclared work, acceptable, as the only way that she can increase her living standard and buy her own apartment.

There is an argument against eliminating informal economic practices: they help the redistribution of wages, decrease unemployment. But, working informally leaves people vulnerable, because they don't pay the social contributions, therefore they are not eligible to receive free health care or more than a minimal pension. Levente (65) explains that when he lost his job at age 52 he was in a vulnerable situation.

"In the Hungary the most important is [when they measure the eligibility for the pension] that how much you earn in the final years before your retirement. And that was the problem. I could get occasional jobs, where I got the money cash in hand, but it doesn't contributed to my pension. So, the worst time was when I was so desperate that I worked as a cycling-delivery boy. I mean I was 52 years old and I was cycling and delivering like a 20-years old would do, that was crazy." (Levente, 65, Hungarian male, pensioner)

The minimal state pension is 28.500 HUF/month, which is approximately £75. People working for or around minimal wage, which is around 1.5 million people form the 4.1 million working people, can expect pension of 40.000HUF/month, which is approximately £100 (KSH, 2018). Referring back to the first quote from Rose, it is difficult to understand how people can or will be able to cover their living costs. It is also worth to observe the young age of Levente, he was 60 years old at his retirement, because he worked from age 18 in the socialism and people can retire after 40-years work experience according to the law.

1.2 practices generated

An environment of low-wages, high income taxes and social contributions as well as the inadequate functioning of the welfare system is an environment where informal practices are naturally generated. People have to find a solution to make end meets, guarantee a living standard or just access services that are legally should be free for them. Working for minimal wage and getting the rest of the salary cash in hand is one of these solutions that that people employ. In the following quote the participant addresses the connection between low wages and low pension.

"My pension is low, because my salary was low. It was just a little bit more than the minimal salary, and we got the same amount of money or more in 'travel expenses'. You don't have to pay tax after travel expenses. I had to write down where I have been, even if I didn't go there. My boss of course knows about this, this is how he could keep our salary low, and he doesn't need to pay that much tax after us, and we don't need to pay tax on the travel expenses. It is good for everyone..." (Andras, 67, trades man, male)

The participant regards the practice as somewhat positive by stating that it is "good for everyone". This is congruent with Mihalyi's (2008) observation about the common interest between the employer and employee against the state. The employees are only interested in their actual income, and they see the health care contribution as a tax. The employer also wants to avoid paying for the health care contribution, therefore both parties are interested in 'stealing' from the state (Mihalyi,2008). This practice can only happen by documenting fictitious travel routes between the addresses that the tradesmen might visit that month. The travel did not take place, there was not money spent on petrol, but the employee will receive a cash in hand payment for the petrol that he did not buy. With this practice the employer and the employee avoided to pay higher income tax and social contribution. However, employer social contributions are higher than employee contributions, therefore unregistered work and not reporting of wages will reduce employers' labour costs far more than will raise workers' income (Matsaganis at al., 2010:17). This means that although the practice regarded as good for everyone, it is better for the employer. The collected data suggested the employers would

offer perks, such as letting employees use the company's van for transport or lending equipment belonging to the company to the employee to do jobs on the side.

The problem of the low wages can be solved by taking a second job on the side. If it is for cash in hand, it belongs to the domain of informal economy. School teachers often take teaching jobs after hours, but it is also common that language teachers officially working for a language school with a contract have a network of private students on the side. Neil (45), the manager of a language school explained their approach towards teachers, who are working on the side:

"I don't see it as a problem. I mean they earn so little at the school, so it is totally understandable that they want some additional money. I have been teaching private, and I know that many of the people, who are working for us does the same. We don't try to regulate it, they don't have to admit, but I know that they are doing it. I understand that they should pay tax after this, but it is kind of accepted that it doesn't work that way. And it is normal in all different subjects, like maths, physics or grammar, so why should the language teachers be scrutinised?" (Neil, 45, British male, company)

Working on the side it is not just acceptable practice but supported by the employer in many professions. It shows the existence of alternative morality and normative order, where the norms of the social association (group of trades man or teachers) dominates over the formal regulations. The employer and employees agree the follow their own norms regarding employment, benefits and wages, rather than follow the formal regulation, because they regard the formal law (taxation) unjust and inefficient.

Language learning is popular and private teachers are in high demand, because a university or college degree cannot be obtained without a state recognised language certificate in Hungary (Eckes at al., 2005:364). Having private lessons for cash in hand is acceptable by not only the teachers, but the student and a significant number of the society. The legality of the practice is not questioned or debated by the members. It is not kept as a secret and the manager of the language school is understanding the practice. Teaching private for cash in hand is the norm. However, it is a different situation when the teacher would benefit from not doing her job properly in the formal working place in order to benefit from private teaching:

"I have a colleague, the 'nice' teacher, who provides private tutoring for her students. It means that she practices the test questions [rather than teaching the students] or just gives them the direct answer beforehand. She wants to show to the parents that their money is well spent. I mean it is a good business, she doesn't teach properly in school time, she has private students, so she gets the extra money after hours and the grades are still good, because she gave them the answers. So essentially the parents pay for the better grade." (Katalin, 62, Hungarian female, teacher)

While private tutoring is an acceptable practice, abusing the working environment in order to gain private students regarded as immoral. This practice shows other elements than concealing the income such as neglecting the job, cheating and a payment for a service that is essentially a bribe for a better grade. This means that the practice is not only informal, but illegal and regarded as corruption, not only by the formal law, but by the informal norms of the social association (other teachers in the school). The practice might be condemned by the other teachers, but the parents regard the teacher as 'nice' person because she provides an extra service and grades are improving. With the decentralisation of education after the transition parents paradoxically started to see the school system and educators themselves as potential obstacles to betterment and affluent parents started to seek out private teachers (Kaufman, 1997:37). From the parents' perspective, they get the formal and free education for the child from the school and pay for the extra service of private tutoring and improved grades.

Accepting gifts and gratitude payments is another way to complement salaries. I briefly discussed the system of informal payments in health care sector in the previous section. The government raised the

salaries of young medics and granted them other benefits, such as scholarships for financial support, if they don't accept informal payments. For example, the so-called Markusovszky Scholarship is for young medics, with outstanding grades, but receiving the scholarship means that the medics have to sign a contract with the state that she or he doesn't accept informal payment while receiving the scholarship. Anett (32), a young doctor described the scholarship as the following when stating that she still accepts informal payments from the patients:

"We get this money as a compensation for not leaving the country and not working in Germany or Norway, where we would earn five times more. I don't really feel bad about taking any extra money, especially from the state when we have so much responsibility and so little salary. All of my friends do the same..." (Anett, 32, doctor, female)

The scholarship is seen as a compensation for the low salaries rather than an appreciation of the young doctors' high grades and moral integrity in the medic community. Gaal, Evetovits and McKee (2005) notes that in certain cases, it is the hope of substantial informal payments in the future that motivates physicians to remain in the system. It means that it would require a much larger amount of money to achieve equilibrium, that the state cannot afford. Therefore, accepting the scholarship as well as the informal payments doesn't seem immoral in the medical community. While the salary of young doctors was raised to reduce the system of informal payments and the number of doctors that leaving the country the older generations' salary remained the same, which contributes to the reproduction of accepting informal payments:

"...my boss, a training doctor and the other doctors, nurses told me, that I have to accept the money, because if the patients learn that we treat them without extra payment they won't get any money either, so I must accept it. it wasn't my decision. I know it sounds bad, but everybody does it..."(Anett, 32, doctor, female)

It means that even if a young medic with a decent salary makes the decision of not accepting informal payment other members of the social association will inform them about the informal norms. The norms of the social association are stronger than the formal law. The informal rules in a social association include a degree of reflexivity (Ziegert, 2009). The norms provide the individual members with a relational 'reference point' that tells them not only what conduct is expected of them, but that also tells them, in relative terms, what they can expect from others (Ziegert, 2009).

2. legal or administrative pressure (inadequate legislation)

1.1. the source of problem

Amongst legal and administrative pressures participants addressed the discrepancies between the restrictions of formal law in running a successful business and the participants' intention of maximising profit. While entrepreneur participants were aware of the formal rules of taxation, some participants who were engaging with taxable activities, such as letting out their own apartment, teaching privately or providing other services (translation, filming) occasionally, were not fully aware of the formal rules. It also means that their remarks on the high tax burdens are inaccurate. In this research I am interested in people's perception, therefore I don't differentiate between practices that are actually generated by the inadequate legislation and high taxation or that are the results of people perception of those. The outcome is the same.

Hungary has the highest added value tax (VAT) on the world, it is 27%. Literature on taxation suggests that there is a correlation relationship between high taxation and tax avoidance (Kreko and Kiss, 2007). A government policy on reducing tax avoidance was to connect cashier machines directly to the tax office to monitor the transaction. British participant Lewis (55) observed a problem that he described as 'open cashier policy'.

"I noticed that cafes, and smaller shops have this open cashier policy. You know how all the cashier machine is directly connected to the Hungarian tax office... but they only register a transaction if the

cashier machine is closed. They keep it open and they give you a receipt, but that transaction is still not submitted to the tax office, so they have to close the machine occasionally. For example they do 2 hours open and 4 hours closed, this way they still register enough money and transactions". (Lewis, 55, British male, small-business owner)

Running a business in Hungary is complicated, especially for British participants. Jon (46) explains the difficulties around establishing and running an honest business.

"It is difficult with the taxation, but setting up the business was okay, because I have a business degree and my wife [Hungarian] helped with all the Hungarian paperwork. I remember it was difficult in the beginning and there were periods when we were struggling, maybe exactly because we wanted to do everything in the right way." (Jon,46, British male, entrepreneur)

British participants have to learn the formal and informal norms of running a business and often struggle when they are not willing to take part in practices that they regard immoral, while these practices are regarded as acceptable by their Hungarian counterparts.

It is common that private people let out their properties for cash in hand, not only for long-term but for holiday makers. The taxation after the profit is 15% and if someone earns over one million HUF in the tax year, which is likely, because the average rent was 150.000 HUF/ month in 2018 (index.hu, 2018), has to pay additional 14% health care contribution. It means that the overall tax is 29% of the profit. Aron (26) an entrepreneur owning several properties described the situation as the following:

" It is possible to let out your property in a legal way. You just have to pay the contribution and taxes after the property, like you would live there. Register as a landlord and register for the KATA [This a tax for small businesses and self- employed paid in one sum]. So, if you have an apartment, and you let it in out every weekend or so, you won't make any profit... but you can do it legally." (Aron, 26, Hungarian male, entrepreneur)

1.2 practices generated

High tax burdens, complicated legislation generates informal practices. British participant, Richard (26) talks about paying his rent cash in hand to the landlord, describing a situation when paying cash in hand is not an exception, but it is the norm.

"I am paying cash in hand and the landlord doesn't provide an invoice. He never told me another option and I am fine with it, because it doesn't matter for me. I am not registered under the address and I don't need to be registered, I am not eligible for public health care. I am aware that he should pay tax after letting the apartment out, but I wasn't event registered so he could easily disguise this income. I went trough an agent. I think people are just not worried about that anything will happen, it seems to be the norm. They think that the authorities would not care about such a small sum of money, so they don't even think about it as a problem, that is my impression. If they are not worried about it, me neither." (Richard, 26, British male, working for a private company)

According to the law, people who conceal their actual income that they realise from the rent should pay the tax and additional 200% of the tax as a fine. It means that after a yearly income of one million, the tax should be 150 HUF with the additional 200% it is 450 HUF. Even after paying the fine people would still maximise 550 HUF profit. Also, the tax authorities do not have the statistical data on how many people pay tax after rent or conceals the activity, because the tax after the rent comes under the general category of 'income from individual activity' in the tax form, which includes several other types of activities (Napi, hu, 2015).

Concealing this income seems to be the norm, but it leaves land lords and tenants in a vulnerable position. Often there isn't a formal contract between the landlord and the tenants, therefore none of the parties can exercises their rights. However, paying cash in hand and having an informal agreement

means a cheaper price and both parties are interested in maintaining the informal situation. This means that people honour informal tenets' agreements, because for example without a formal contract a landlord could not enforce tenet evictions at court. There is a legally plural environment, where people retreat from the formal law and obey informal norm, because they regarded the taxation unjust and the paperwork too complicated.

Zsuzsa, (30) Hungarian participant lets out her apartment in Budapest, without declaring her income from the rent. Her discussion with her partner provides a good insight into people's thought process on the subject.

ZS: "I don't know statistics, I just say this from the top of my head... but it is just something that I see and hear talking with other people... that like 85% of the rented properties is cash in hand. But it would be too expensive to do it in a legal way, too much tax."

Her husband Marton (32) reflects on this:

M: "But wait... do you even know how much is the tax? We have never checked it. We don't know. That we know is that if you want to do it a legal way, it requires a lot of paper work, you need to have permissions and so, and we didn't want to go through that."

ZS: "But I still see this as a grey zone. I mean there are levels what is corruption and what is just something else and for me this is not in a high level." (Focus group, Hungarians)

This conversation shows that people don't even learn the formal regulation, they obey the informal norms, that they hear or learn from the other members of the social association. Because the perception is, that most of the people lets out their property in an informal way, it becomes more and more acceptable and widely practiced

People always can find other solution if the tax authorities would conduct an inspection. Derek (63), British small business owner describes his perception of how other Hungarian businesses conduct themselves in reflection to my question on why business owners are not afraid of concealing their income and avoid giving invoices.

"I guess they know how the tax authorities' system works, that they can't look into all the transaction of all the businesses. They might conduct occasional check-ups, but these are not really randomised. They let them [the business] know when they are coming. It is also possible to bribe the inspector, or just pay a fine, because the fine is much smaller than the profit that you realise without declaring the 27% VAT that the customers pay. That's what I heard from others..." (Derek, 63, British male, business owner)

There isn't an incentive of obeying the law, because the tax authorities and inspectors perceived as corrupt and because the threat of paying the fine is not substantial enough. Derek (63) also implies that business owners have connection to the tax authorities and they are aware of the informal norms so they can initiate an informal discussion with the inspector that results in paying a bribe instead of a fine.

Participants who were doing occasional work and don't count as employees talked about producing fictitious invoices. Marton (32), Hungarian participant described this as 'buying invoices' (szamla vasarlas). In his occupation, which is connected to media, the norm is to not give people a long-term contract for two reasons. Firstly, to avoid paying social benefits after the employees, secondly because the funding system based on commissions of individuals and small companies. 'Buying invoices' doesn't include actual money exchange, but when it comes to the tax return the 'invoice factory' (the provider of the invoice) can claim back 15%, which is a special regulation for supporting this industry. For my question how he learnt about this informal practice and the norms, he explained:

“It was kind of obvious. First my friend told me who introduced me to this industry and then other people explained that this is how you do it. And then the people who could provide the invoice just came forward. Everyone knows who they are, they are the influential people in the industry. Later I registered as a sole trader, it was actually really easy...”(Marton, 32, Hungarian male, sole trader)

Kickbacks are wide-spread in other sectors as well. Hungarian tradesmen explained that if they work for private, the person usually expects that he or she can pay cash in hand for a more favourable price. But if they work for a public, state-funded institution, they usually expect a kick-back. Roland (30) explains the procedure as the following:

“They usually tell us in advance how much they want or sometimes you have to ask, like: ‘What should we put on the invoice?’. So, we write more money on the invoice that they actually pay and then we get some cash and they keep some cash, but I heard that the kickback system goes all the way up the ranks. So, we are just dealing with the lowest person in the rank, who was told by someone what to write on the invoice.” (Roland, 30, Hungarian male, tradesman)

In this situation the state funded institution requested more money for a project with the intention to embezzle and share some of the money. For this they need the help of the tradesman, who will provide the invoice with the higher sum.

British entrepreneur participant, Arthur (45) explained that he pays and receives kickbacks from a law firm that he has a long-term, mutually benefitting relationship with, if the law firm refers people to him, or if he refers people to the law firm.

“I mean this is something that we do and it is illegal, but I can justify it... I think... because we pay all taxes, and the VAT is so high, and really this is the only thing that we do... but maybe we shouldn’t but I feel that it is just nothing... it is not a large amount of money it is more like for maintaining that relationship between us and the law firm.” (Arthur,45, British male, entrepreneur)

In this case the kickback serves more like an informal way to ensure the business relation between to businesses. Regardless it is an cash in hand payment and concealed income according to the formal law.

3.Lack of trust- perceived corruption of the government

1.1. the source of problem

In this short section I will present two types of problems that are connected to the political regime. Firstly, people’s perception of political corruption, which is largely based on media reports, rather than personal experience. Second the case of top-bottom political corruption, which is directly influencing people’s life.

Participants are using political corruption reported in the media as a reference point to regulate and justify their own actions, behaviour. British migrants Lewis (55) observed that Hungarian explain their participation in the informal economy and everyday corruption by referring to the actions of the government and people, companies connected to the government:

“Well, because I don’t speak Hungarian I have a limited access to Hungarian everyday news, but of course you can’t avoid learning about it. I don’t like political debates, but Hungarian are often talk about it and they like to discuss the most outrageous news. Which is totally understandable, when someone is using a helicopter, which is a state property to go to her daughter’s wedding, while everyday Hungarians just try to survive. I think Orban [the Hungarian prime minister] and his companion are horrible, it is a horrible situation, which is kind of modelled on Putin’s policies. It doesn’t affect me much, but I can hear and notice that Hungarian people care about this and they would say, ‘if politicians can steal millions, what harm do I cause by doing tricks with cash, or only steal some thousands?’ No one will care about it, no one will look for it or judge me”. (Lewis, 55, British male, small-business owner)

Perceptions of government corruption has implication to the tax payers' behaviours. In their survey investigation for the Czech and Slovak Republics, Hungary and Poland, Hanousek and Palda (2002) show that those, who believed that they were getting quality government services also tended to evade taxes much less than those, who did not believe getting the services they expected. Lacko (2007:12) argues that governments are constrained in their actual tax collection by the perceptions people have about the quality of government services that they receive.

The most common media reports of corruption include an element of abusing state property, state funds or EU funds, facilitated by an *uram-bayam* relationship, which means long-term trust relationship with reciprocity. The mechanisms of these relationships are mirroring the redistribution of wealth that happened in the transition phase, when privatisation happened as described by Lomnitz and Sheinbaum (2004). There is a widespread and often very complicated systems of favours and tricks, privileges and exclusions, information leaks and deception (Lomnitz and Sheinbaum, 2004:405).

Based on the media reports it appears that every government policy has a second, hidden target which is to gain or provide some financial advantage for people or companies connected to FIDESZ (the government party). For example, connecting cashier machines to the tax office, required buying a certain equipment which was serviced by companies owned by government friendly entrepreneur. While, there is the impossible situation with the high rent prices, that are higher then people's formal salary, but politicians, entrepreneurs, media people close to the government pay so-called socially subsidised rent for apartment in the Buda Castle, living in apartments owned by the council. Or the government launched a program, which aimed to provide job opportunities and financial contribution for settlement for young Hungarian people returning home from the UK, but most of the budget was spent on advertisement and running a social media page rather than aid. The company, responsible for the social media was owned by a government-friendly person.

But while these corruption practices don't directly affect people, only their perception, there was a case that a group of participants mentioned, which shows the top-bottom effect of political corruption. Political corruption can actually influence

people's everyday life and contribute to the everyday corruption. Four different participants connected to language schools independently mentioned the same practices. I don't provide further details on the participants to ensure their anonymity.

There was a government-level decision, which targeted to improve the language skills of the Hungarian people in general, by providing funding for certain language schools to put on courses that are free or partially funded for the participants. To be eligible for this fund the schools had to be so-called 'state accredited' schools. Language schools had to apply for the status. Participants mentioned that the language schools that they were connected to were found not eligible for the fund, only schools were supported that they called 'government-friendly'. On the other hand, there were fictious language schools that were supported from the fund, putting on fictious courses for non-existent students. Also, time to time the ministries or the police organises language courses for their employees, to raise the level of language skills. They usually choose the same two or three language schools and examination centres. The participants called these government-friendly language schools and examination centres. These language exams are only valid in Hungary, but regardless ministry employees and the member of the police want to take part in the course, because if they pass, they get a salary raise. One of the participants, who was invited to the language exam as an examiner was told that he has to let people pass. Other participant mentioned that the students (ministry workers and member of police) practiced or were given the exam questions beforehand.

This corruption practice started with a political decision and worked its way down to the level of the examiner, who is told to take part in corruption.

1.2 practices generated

It is understandable the people have little trust in the government and that they do not regard their own small-scale practices as corruption. In one of Hungarian focus groups when I asked participants to explain what corruption means for them I got this answer:

"P1: Corruption is...the real corruption is that politicians do...

P2: Yeah, but that's not the subject here... but I would say it is connected, because they try to keep us poor, and they always make daft remarks and promises.

I: Like what?

P2: Like that we have better living standards than before, and there isn't poverty, and you hear this on TV, on radio and then you know that you couldn't make a decent living without doing some tricks or *mutyi* [doing something dodgy]. And we are not poor, there are many people who can't buy food or pay for their heating on daily bases.

P3: And what does the real statistical data say? Do you know? That the top 10% of the society earns that much as the rest of the society in Hungary. Now, this is not a democracy, they have so much money that we can't even imagine, and we have to do tricks, because can't earn enough with honest work. So, do I feel bad about doing tricks? No, not for a minute." (Focus Group, Hungarian)

Income inequality started to increase in 1980s (Andorka,1993:326) but with the transition and the introduction of market economy it become greater, and according to the perception of the participant it is greater than ever. The democratic backsliding is widely recognised by international organisations as well as the citizens. People feel powerless and alienated. Andorka (1993:331) suggests that feeling of distrust and enmity are understandable when people use their position in the power hierarchy or simply personal relations with powerful persons to gain privileges at the expense of other members of the society. Andorka (1993) describes an authoritarian system, but the description is applicable to the current situation in the democratic Hungary.

Conclusion

Today in Hungary there is a system in place that mirrors the socialist system. Only the state employment is replaced by employment for a minimal wage or slightly above minimal. By being formally employed the social contributions are payed, but many people take part in the informal economy to complement their salaries, which wouldn't cover their living costs. While a small number of privileged people earns as much as the rest of the society together.

Bibliography

Andorka, R. (1993). The socialist system and its collapse in Hungary: An interpretation in terms of modernisation theory. *International Sociology*, 8(3), 317-337.

De Ridder, E. (2009). EU Aid for Fighting Corruption in the Czech Republic and Slovakia: Where Did It Go Wrong?. *Journal of Contemporary European Research*, 5(1), 61-81.

Eckes, T., Ellis, M., Kalnberzina, V., Pižorn, K., Springer, C., Szollás, K., & Tsagari, C. (2005). Progress and problems in reforming public language examinations in Europe: cameos from the Baltic States, Greece, Hungary, Poland, Slovenia, France and Germany. *Language Testing*, 22(3), 355-377.

Gaal, P., Evetovits, T., & McKee, M. (2006). Informal payment for health care: evidence from Hungary. *Health Policy*, 77(1), 86-102.

Gaal, P., & McKee, M. (2005). Fee-for-service or donation? Hungarian perspectives on informal payment for health care. *Social Science & Medicine*, 60(7), 1445-1457.

- Gawlewicz, A. (2016). Language and translation strategies in researching migrant experience of difference from the position of migrant researcher. *Qualitative Research*, 16(1), 27-42.
- Georgiev, L. (2013). Corruption-A Necessary or Surmountable Evil. *Megatrend revija*, 10(1), 83-100.
- Graycar, A., & Jancsics, D. (2017). Gift giving and corruption. *International journal of public administration*, 40(12), 1013-1023.
- Griffiths, J. (1986). What is legal pluralism?. *The journal of legal pluralism and unofficial law*, 18(24), 1-55.
- Gupta, A. (1995). Blurred boundaries: the discourse of corruption, the culture of politics, and the imagined state. *American ethnologist*, 22(2), 375-402. Press and Cole, 1999
- Hajnal, G., Kádár, K., & Kovács, É. (2018). Government Capacity and Capacity-Building in Hungary: A New Model in the Making?. *NISPAcee Journal of Public Administration and Policy*, 11(1), 11-39.
- Hann, C. M. (Ed.). (2002). *Postsocialism: Ideals, ideologies, and practices in Eurasia*. London: Routledge.
- Jancsics, D. (2013). Petty corruption in Central and Eastern Europe: the client's perspective. *Crime, law and social change*, 60(3), 319-341.
- Jancsics, D. (2015). "A friend gave me a phone number"—brokerage in low-level corruption. *International Journal of Law, Crime and Justice*, 43(1), 68-87.
- Karklins, R. (2002). Typology of post-communist corruption. *Problems of post-communism*, 49(4), 22-32.
- Kaufman, C. (1997). Educational decentralization in communist and post-communist Hungary. *International Review of Education*, 43(1), 25-41.
- Krémer, F. (1998). A rendőri szubkultúra és a korrupció néhány problémája. *Belügyi Szemle*, 10.
- Kornai, János (2006): "The Great Transformation of Central Eastern Europe: Success and Disappointment." *Economics of Transition*. 14 (2): 207-244
- Lampland, M. (2002). The advantages of being collectivized. *Postsocialism: ideals, ideologies and practices in Eurasia*.
- Ledeneva, A. V. (1998). *Russia's economy of favours: Blat, networking and informal exchange* (Vol. 102). Cambridge University Press.
- Benedek, D., & Lelkes, O. (2011). The Distributional Implications of Income Under-Reporting in Hungary. *Fiscal Studies*, 32(4), 539-560.
- Lomnitz, L. A., & Sheinbaum, D. (2004). Trust, social networks and the informal economy: a comparative analysis. *Review of Sociology*, 10(1), 5-26.
- Lovell, D. W. (2005). Corruption as a transitional phenomenon: Understanding endemic corruption in postcommunist states. *Corruption: anthropological perspectives*, 65-82.
- Matsaganis, M., Benedek, D., Flevotomou, M., Lelkes, O., Mantovani, D., & Nienadowska, S. (2010). Distributional implications of income tax evasion in Greece, Hungary and Italy.
- McGhee, D., Heath, S., & Trevena, P. (2012). Dignity, happiness and being able to live a 'normal life' in the UK—an examination of post-accession Polish migrants' transnational autobiographical fields. *Social Identities*, 18(6), 711-727.
- Merry, S. E. Legal Pluralism"(1988) 22. *Law & Soc'y Rev*, 5, 869.

- Morris, J. (2013). Moonlighting strangers met on the way: The nexus of informality and blue-collar sociality in Russia. In *The Informal Post-Socialist Economy* (pp. 71-86). Routledge.
- Mungiu-Pippidi, A. (2005). EU enlargement and democracy progress. In *Democratisation in the European neighbourhood* (pp. 15-37). CEPS Centre for European Policy Studies.
- Nuijten, M., & Anders, G. (Eds.). (2007). *Corruption and the secret of law: A legal anthropological perspective*. Ashgate Publishing, Ltd..
- Polese, A., Stepurko, T., Oksamitina, S., Kerikmae, T., Chochia, A., & Levenets, O. (2018). Informality and Ukrainian higher educational institutions: Happy together?. *Policy Futures in Education*, 147821031875881
- Polese, A. (2016). *Limits of a Post-Soviet State: How informality replaces, renegotiates, and reshapes governance in contemporary Ukraine*. Columbia University Press.
- Polese, A. (2008). 'If I Receive It, It Is a Gift; If I Demand It, Then It Is a Bribe'.
- Polese, A. (2013). Drinking with Vova: an individual entrepreneur between illegality and informality. In *The Informal Post-Socialist Economy* (pp. 105-121). Routledge.
- Polese, A., Kovács, B., & Jancsics, D. (2018). Informality 'in spite of' or 'beyond' the state: Some evidence from Hungary and Romania. *European Societies*, 20(2), 207-235.
- Rabikowska, M. (2010). Negotiation of normality and identity among migrants from Eastern Europe to the United Kingdom after 2004. *Social Identities*, 16(3), 285-296.
- Routh, S. (2011). Building Informal Workers Agenda: Imagining 'Informal Employment' in Conceptual Resolution of 'Informality'. *Global Labour Journal*, 2(3).
- Rausing, S. (2002). Re-constructing the 'normal': identity and the consumption of western goods in Estonia. *Markets and moralities: Ethnographies of Post socialism*. Oxford: Berg.
- Sayed, T., and Bruce, D. (1998). Police corruption: Towards a working definition. *African Security Review* 7(1). Retrieved 7/26/2001: www.iss.co.za/Pubs/ASR/7.1/Sayed%20&%20Bruce.html
- Scheppele, K. (1999). Inevitable corruption of transition. *Connecticut Journal of International Law*, 14, 509.
- Szende, A., & Culyer, A. J. (2006). The inequity of informal payments for health care: the case of Hungary. *Health Policy*, 75(3), 262-271.
- Trevena, P., McGhee, D., & Heath, S. (2016). Parental Capital and Strategies for School Choice Making: Polish Parents in England and Scotland. *Central and Eastern European Migration Review*, 5(1), 71-92.
- Waite, D., & Allen, D. (2003). Corruption and abuse of power in education administration. *The Urban Review*, 35, 281.
- von Benda-Beckmann, F. (2002). Who's afraid of legal pluralism?. *The Journal of Legal Pluralism and Unofficial Law*, 34(47), 37-82.
- Wallace, C., & Latcheva, R. (2006). Economic transformation outside the law: corruption, trust in public institutions and the informal economy in transition countries of Central and Eastern Europe. *Europe-Asia Studies*, 58(1), 81-102.
- Williams, C. C., & Horodnic, I. A. (2016). An institutional theory of the informal economy: some lessons from the United Kingdom. *International Journal of Social Economics*, 43(7), 722-738.
- Zerilli, F. (2005). Corruption, property restitution and romaniannes in D. Haller and C. Shore (eds.) *Corruption: anthropological perspectives*.

