

# The Borders of National Economy – Critical Theory and Notions of Economic Policy

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## *Introduction*

After 1989 the central and eastern European region and particularly the economic relevance of national borders was decisively transformed by the fact that the economies of these countries were much more incorporated in the international space and processes of globalization than before. In the investigation of the cross-border organisation of capitalism and the understanding of the Eastern European varieties of capitalism critical theory (BODNÁR 2013; ÉBER 2009) has yet been given a minor role in the literature. In this problem-raising study I examine how the cross-border self-organisation of economy and the relevance of borders are investigated in international economic geography applying critical theory and why this conceptual framework is well applicable in the analysis of notions on economic development in Hungary, the effective and less effective practices of development policy and thus in changing the behaviour of political actors.

## *The border as economic geographical category and critical theory*

Borders as analytical categories have always been present in economic

geographical research. The question “What is where?”, the spatial organisation of trade, as a theme of the classical economic geography, has turned attention onto the global linkages of borders, nations and economies since the emergence of the subdiscipline (BARNES 2000); at the same time this approach pointed at the groundlessness of the differentiation between economic and political borders. The classical central place theories of economics and the new economic geography based thereon, labelled by Paul Krugman, fixed the importance of borders (regardless of whether they divide nations or regions) in the territorial analysis of economic phenomena through the concept of absolute space. These approaches proved again the *raison d'être* of spatiality as a perspectival and analytical category in economics (cf. DUSEK 2013). However the final conclusion of these studies, just as that of mainstream economics, suggesting the omnipotence of market, sweeping away national borders and annulling geography has always been contested by economic geography. The problematic nature of ignoring borders is well demonstrated by the

professional debates of the 2009 World Development Report pointing out that the notion of new economic geography originating from neoclassical economics leads to the reproduction (instead of the disappearance) of inequalities with the decline of the role of borders (LAWSON 2010). Nevertheless, these effects are unacceptable for the majority of economic geographers who, with the downturn of the quantitative revolution around the early 1970s, turned to critical theory for new inspiration.

Critical theory puts emphasis on the active social construction of economic spaces. Borders doubtlessly influencing the operation of the economy are not abstract categories and entities that can be traced up by the usage of indicators and black-boxed estimations (CZIRFUSZ 2010) but are brought into being by the actions (namely the practices of economic policy that will be discussed below) of economic actors. Furthermore their existence is influenced by such structural constraints as the global capitalism of our days (see e.g. WALLERSTEIN 2004). Those authors who criticize the dominant world economic order from this perspective normally insist that economy necessarily depends on the continuous transformation of spatial organization which occurs on different scales, for example, at nation state level, in spaces with national borders and between them as well (BRENNER 1999). Of course this approach also uses the concept of absolute space (for example Brenner introduces the notion of territorial state to assert the

territorial sovereignty of the state, limited by borders, and this is an important analytical perspective). However, it is the institutional system of the territorial state which ensures the cross-border movement of the factors of production. This latter approach opens up research for the concepts of relative, relational and networked spaces. Global economic interdependences can therefore be the subject of complex researches with the help of borders as ontologies. Following Brenner researches may aim to point out the role of borders and economic processes in the reproduction of uneven geographical development, to turn them into subjects of critical analysis and, finally, to show alternatives for different modes of organization.

In Hungary border studies and particularly the examination of cross-border economic relations have interested regional studies for a long time. However these examinations are mostly concentrated on the description of cross-border economic organisation and they rarely consider global organisation (such a theme could be the interlacing of global production networks and cross-border commuting in the Western Transdanubia region) or how the nature of regime change reproduced borders and territorial states (VARRÓ 2010). So critical theory and particularly its notion considering spatial economic processes, uneven development as well as spatio-temporal fixes together with economic dependencies and the changing political projects of nation states (HARVEY 2004) can claim a

place in the analysis of borders in the Hungarian and more generally eastern European economies.

*The borders of national economy in notions of development policy*

The borders of national economy and the consequences of borders on the social and political system drew the attention of analysts of domestic economic policies during the course of the 20<sup>th</sup> century, particularly because of the continuous transformation of power relations. The controversies of the economic system of the dualist period are well interpreted in the essay of Lajos LEOPOLD (2002 [1917]) on the simulated capitalism which he describes by tracing a sharp economic borderline between East and West whereby the influence of western markets and credits resulted in the emergence of a capitalist legal system (with the notions of economic borders) which was indeed a “mimicry-capitalism”. In Hungary between the World Wars the questions of the nation state borders and the existence or non-existence of customs and custom barriers were issues that divided political parties, as each group argued for or against the role of national economy in establishing such trade barriers in the fragmented eastern European economic space.

Under socialism the notion of internal economy as an organic whole became exclusive in the practice of development policy as well as in economic planning. The spatial organizational frame of economy was constituted by the political-economic

space delimited by state borders, though “nation” as label was replaced by “people”. Socialist economic systems meant the framework in which the scientific, rational planning of production factors was enabled in contrast with capitalist countries where economy organized itself in an “anarchic” manner, both inside and across borders (MAR-kos 1951). Of course this viewpoint totally misunderstood for example Marxist political economy and its inherent territoriality which derives the inequalities of capitalism from the logic of capital and not from its anarchic manner. As each country was a distinct political entity at that time state borders did not become descriptive categories of the analyses. Borders had no other functions than geographically delimiting economic planning under the sovereignty of socialist states. At the same time borders of socialist economies had their own role in interstate commerce but different from that of the ages before 1945: for the then-dominant economic geographer György MAR-kos (1952) the spatial division of labour between countries was charged with the problems of imperialism (expressing power relations) in contrast with the rationally organized method of the Comecon (Council for Mutual Economic Assistance).

After the regime change, the preparation for EU accession and then the accession itself changed the role of borders as well as their economic importance in the theory and the practice of development po-

licy. Cross-border development and cooperation became important elements of “Europeanization”: with the incorporation of European norms the sense of joining Europe was reinforced in political practice. Although borders between old and new members states went somewhat blurred the difference of the two groups remained a meaningful narrative (see e.g. VARRÓ 2008). Nevertheless the researches pointed out that borders and cross-border economic projects are such political projects that are purely considered as tools in eastern European countries (SCOTT 2013). Consequently one can say that borders, as a legacy of the spatial notion of socialist planning, did not become analytical categories in the analyses of economic processes underlying development policies.

SCOTT (2013) also called attention to the fact that borderlands played a decreasing role in national development planning. In this I am curious about how economic development documents write about national economy, its borders and their permeability; therefore I do not limit my analysis to the economies of borderland regions. In the remaining part of the study I am going to analyze two Hungarian development policy documents, thought to be interesting from the perspective of the theme: the Wekerle Plan (The Hungarian economy’s growth strategy at the scale of the Carpathian Basin) and the National Development 2030 – National Development and Spatial Development Concept, adopted at the beginning of

2014, predominantly relating to the 2014-2020 EU programming period.

In the economic policy discourse Wekerle Plan, which has been cited many times since its adoption (therefore one can consider it as a reference point), integration as a tool for convergence to Western Europe and for the dissolution of tensions between centres and peripheries is suggested. In my opinion this approach does not take into consideration those economic mechanisms, emphasized by critical theory, through which the western European centre and the eastern European periphery organize themselves: namely the two regions mutually presuppose each other. In the document the suggested integration would not be an economic integration which might re-identify the role of borders from an economic aspect, rather it would transform a cultural milieu into economic resource. I agree with the evaluation of the current situation in the plan, suggesting that the wider economic cooperation of the countries of the Carpathian Basin could be successful. At the same time the re-thinking of the borders of national economies should not be conducted, because of the above mentioned centre-periphery relations, i.e. to strengthen economic relations with countries outside the eastern European region: the goal is exactly the reduction of economic interdependencies. The dual nature of the economy (due to western European capital investments) is repeatedly mentioned by the document as a problem, correctly. The

principal problem of the plan (which likely explains the delay of its effective implementation) is obviously that it aims to strengthen the positions of the Hungarian economy (as an entity with nation state borders) within the Carpathian Basin but also seeks partnerships based on the concept of mutual advantages. If we take the resources of the region as fixed then the reinforcement of the Hungarian economy is only viable at the expense of other economies, and the partnership relations would weaken Hungary as an economic space in some sub-sectors. From the perspective of borders the document sets the objective of achieving results through the targeted domestic support of the actors of national economy (small and medium sized enterprises) outside the borders of national economy so as to make borders permeable for them. The steps of this goal are multiple, according to the document. First of all the plan sets infrastructural objectives which are principally important in border regions: by ensuring the permeability of borders in transport and services, functional relations may be established in the geographical space which are “split up” by the border. Another set of objectives relate to the labour market: interlacing economies with standardized training systems and the reinforcement of labour force mobility (not exclusively in border regions). It is important to note that the economic role of borders does not only come up for capital (enterprises) but also for labour. Unfortunately, it was exactly the flexibilisation of the

labour force through state policies that reproduced the inequalities between the different groups of society (ARNOLD, PICKLES 2011; COE, JOHNS, WARD 2008) therefore the improvement of the permeability of borders can result in a competitive situation that does not serve social justice, promoted by critical theory. Thirdly, objectives of an economic nature target the transformation of production networks in which domestic enterprises can take part in macro-regional supply chains both in manufacturing as well as in agriculture. The document however says nothing about the fact that production networks embody such globally organized power relations, in Hungary’s case too, in which the enterprises situated in the different parts of the value chain are exposed to the others in different ways (see e.g. NAGY 2010). These positions are influenced by measures of state economic policy, making state borders visible and non-visible, permeable and non-permeable, passable and impassable (BERNDT, BOECKLER 2011). Finally, the objectives of the plan are of a cultural nature as well: ethnic Hungarian entrepreneurs living in neighbouring states, relatively minor cultural differences allow Hungarian entrepreneurs to enter into other countries (therefore this narrative is not about borders as barriers but the lack of borders in the cultural sense).

The spatial framework of the most comprehensive - and at the same time newest - document of the Hungarian development policy

named National development 2030 is concerned with the national economy though the concept starts from global determinations. The assessment of the current situation suggests the idea of a national economy having open and passable borders, which seeks to build connections with the economy of other countries in every directions, aiming to embed itself into the global economy. From this point of view the development policy represents that standpoint of economics which hopes to achieve welfare through the establishment of the free market and the free movement of resources. Subsequently the document correctly declares that Hungary has an opened economy and is largely exposed to the processes of world economy. Supposedly it is thanks to the effects of the above mentioned “European ideas” on the openness of borders that the preservation of this openness appears as a political commitment. The document sets the objective that domestic enterprises should more deeply integrate within global production networks, ignoring again though its problems. Among the “national priorities” of the document, contradicting these precedents from many aspects, the creation of a “patriotic economy” is foreseen which is built on domestic resources to the greatest possible extent, using local economies as guidelines (repeating simultaneously the above described ideas on integration within the European economy). Therefore, according to this document, which is likely to influence fundamentally the practice

of development policy in the upcoming years, borders tend to have an ambivalent role in the future operation of economic policy.

The reinforcement of the central European position and the reconciliation of macro-regional interests is definitely an important goal but neighbouring states are mostly considered as markets by the document. The idea of the economic integration of the Carpathian Basin was incorporated into the National development 2030 programme with a content that is appropriate to the Wekerle Plan which, in relation to borders, aimed on the one hand at the establishment of economic transferability between national economies as entities, and on the other hand targets the deepening of the cohesion between border regions within the spatial framework of entities resulting from EU policies (e.g. euroregions, etc.). Therefore, in the course of spatial analysis of the current situation a distinct part concentrates on the reassessment of borderland regions, specifically with a focus on the opportunities of EC funds. This part of the analysis however fails to clarify the actual role of borders: the economic processes presented are obviously not based on the borderland situation but on other economic and historical factors (e.g. Miskolc and Košice are victims of the transition crisis while the western segment of the Hungarian-Slovakian border prospers thanks to foreign investments). Elsewhere it was exactly the dividing economic role of the border that was disregarded in the

analysis: Ukraine and Hungary are two radically different territorial states with different economic positions in the world economy so this fact may explain in itself the economic problems of the border region.

### *Conclusion*

In my opinion the analysis of the two policy documents clearly shows that the material role of the borders of national economy is not unambiguous for mainstream domestic economic policy based on the traditions of classical planning theory – the territorial state is generally built on the emphasis of the role of state borders whereas, in contrast, cross-border cooperation attempts to loosen the sovereignty of territorial states (cf. POPESCU 2008). I propose that critical theory offers such alternative readings on the nature and the macroeconomic determination of economic borders which I would like to introduce in an eastern European historical relational approach in conclusion to my study.

Borders, their redrawing and the interdependencies of economic processes depict national and global power relations. In eastern Europe these interconnections, no matter how far they seem to be the outcomes of the transformation years with the inflow of European discourses, are not new at all. Živković and Medenica (2013) provide for example an historical overview of those power relations in the Balkans which have shaped the internal borders of the peninsula since the Congress of Berlin (1878), on the one hand through

the fragmentation of the states – and thus the fixation of state borders serving economic interests – and at the same time through trade facilitations towards core countries and free-trade agreements – thus by ensuring the transferability of capital across borders. These processes resulted in an external economic dependency, while the internal ties of economy were eliminated in this economic framework. Their analysis refers to those balkanic precursors of critical theory which urged a Balkan Socialist Federation for the people of the Balkans since the 1870s, thereby standing firm for the alternative reading of internal and external borders.

From many aspects the situation of Hungary fits well with this image. The plan of Kossuth on the Danubian Federation, although its focus was on the resolution of the question of nationalities, contained an economic vision: the joint custom and trade system would have meant the decrease of the importance of internal economic borders and the shift of external borders (together with the transfer of economic governance to supranational level) (KOSSUTH 2004 [1862]). In contrast the transformation of the economic policies of eastern European countries after 1989 was predominantly characterized by neoliberal reforms and the belief in the omnipotence of the market (cf. BOCKMAN, EYAL 2002), therefore the decrease of the role of borders in limiting economic flows was also served by the signature of the association agreement with the Euro-

pean Economic Community and the establishment of the Central European Free Trade Agreement (CEFTA). Pronouncedly in the Hungarian case the historical path dependence, the orientalist reading of the neighbouring states and the Balkans (see for example KŐSZEGI 2010), resulted in the reinforcement of such perspectives in development policy which alloyed a sophisticated Carpathian economic imperialism (with an outlook on the Balkans) with the promotion of the inflow of western foreign investment.

There is no doubt about the important role of state borders hindering or facilitating economic activities in present-day Hungary. A critical understanding of the borders of national economy – from which only some examples could be presented here – is indispensable to the conceptual renewal of social sciences dealing with spatial relations. Through the analysis of some documents of the Hungarian development policy I argued that thinking about the role of borders in the every-day working of the economy is important as current documents are obviously hardly adequate to reach the declared objectives (and to formulate at least coherent goals). So notions on borders have prominent importance in the formulation of opportunities and barriers of economic policy as well as in promoting such alternatives that would serve the decrease in dependence of the eastern European region on the global economy. However, this should not be implemented through the transformation of the borders of

national economy into an impassable fortress (autarchy) but through the establishment of such an eastern European alliance that would lead in the long term to the emergence of the macro-region's internal economy as well as to the improvement of standards of work and living and the reduction of social inequalities.

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