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Transformation in Hungary and (in) Hungarian Economics[1]

1. Introduction and Methodology

It would be difficult to produce an overview of this subject in less than a monograph. The first run in the library of the Budapest University of Economics produced over one thousand entries of monographs and research reports on economic policy and economic system only, excluding articles in scholarly journals, and studies published abroad in collective volumes or journals. Thus the inevitable limitations of the time and subject render this survey incomplete and selective, at times contestable for some. As even an annotated list of bibliography of this size would be impossible to digest, our focus of interest will impose severe limitations on the narrative. First, I shall abstract from what is the numerical majority of the output, i.e. description and commentary of current economic policies, contemporary developments and changes both in the real sphere and in regulation. Second, I shall also abstract from the openly apologetic and also from purely normative pieces, as well as from camouflaged lobbying and discourses over the contemporary ideology, as on planning, entrepreneurial socialism (a form of third way), socialist welfare, proportionality, international value, mathematical formalisation of Marxian schemes, or interdependence. Third, I am forced to avoid reflections on the emerging mainstream, which, owing to its very level of abstraction, could have little bearing on systemic change. This is not to belittle this school, but the choice follows from the task to be tackled. Fourth, I shall not deal with textbooks and sectoral economics, with the partial exception of agriculture. The latter has to do with the peculiar role this area played under goulash communism both domestically and in the foreign trade of Hungary. Fifth, I shall have to abstract largely from what is my own original field of interest, international economics. Thus I won´t touch upon the literature on the energy crises, Comecon, EU, developing countries, or understanding various theoretical schools and the practice in advanced economies, or of international organisations. These will be included only insofar as these have had a direct bearing on systemic change.

Thus what we offer here is not meant to be a comprehensive history of Hungarian economics in the past two decades, but the history of policy relevant thinking, i.e. a survey of that part of output, which has shaped the actual course of events. This pertains both to policies and institutions, which are on their way to congruity to OECD standards, and also to the schools of thought, that are becoming also increasingly akin to what we can observe in developed countries.

[1] Useful, comments, with the usual disclaimer, by L. Antal, T. Bauer, M. Bornstein, K. Lányi, P. Sutela, L. Szamuely and H.-J. Wagener, on an earlier draft are thankfully acknowledged by the author. The extended and revised version of this paper is in print as a book in Hungarian at Közgazdasagi Szemle Alapitvány, Budapest, which also covers the updated version of FIT Discussion Paper 96/1 by L. Szamuely.

In methodological terms, I tried to survey published output, with monographs and chapters in books as well as articles in periodicals taking precedence over newspaper items and all other sources. If the piece was also published parallely in English, I quote this source. However, normally it is the time of appearance inside Hungary which is decisive, thus references are made to these. On certain occasions, some non-published materials are also surveyed. These are needed for the better understanding of times, when more often than not, only half of the sentence was uttered, and the other had to be surmised by `those who had an ear to it´. As this piece is not historiography, but history of thought, I did not attempt to process the archives in a systematic fashion, as those ideas which never surfaced from the office shelves could, by definition, have little influence over public perceptions of the economy.

Finally, the delineation in time needs clarification. The first attempt in the same genre was the book by László Szamuely (1986), which published many previously unavailable pieces and reprinted important contributions to the debates in the 1954-78 period. In many ways the present paper is a continuation of the introductory chapter of this book, whose revised and updated version (Szamuely, 1996b) was part of the present project. But not only my unwillingness to redo his job sets the time frame to this study. 1978 was a year of a turn in the fortunes of Hungarian socialism. The outer limits of the recentralisation of that decade were reached. The 1973-77 attempt to ward off impacts of the oil crisis proved to be a dead alley. A year later, the second oil crisis shattered remaining hopes of planners for an inward-looking strategy, based on improved traditional planning techniques and more intra-CMEA cooperation. The growth-oriented strategy, never questioned since the late 40s, had been confronted with external and internal constraints. Externally, the Polish debt crisis and the second oil price hike in 1979 together made the debt-financed strategy unsustainable. Internally, the limitations of Soviet oil and gas supplies proved invincible. Thus the limitations inherent in the policies and systemic options have come to the limelight.[2]

1978 was a year when the 1968 reforms were rehabilitated at the political level. The internal dynamics of Hungarian politics in general and economic thinking in particular would have required - and actually did call for[3] - the radicalisation of reform attempts. It would have included those areas, which were consciously exempted from the 1968 reforms: the priorities and orientation of economic policies, the institutional system, the financial and foreign trade system, and last but not least, Party control of the economy. Meanwhile, 1979 saw the Soviet invasion of Afghanistan, the collapse of the import-led modernisation in Poland, having culminated in the insolvency of that country in April,

[2] The collected essays of József Bognár (1976) played a pioneering role in spreading this conviction, irrespective of some of its plainly erroneous theses, as the global shortage of energy or the rearrangement of price relatives favouring primary products.

[3] The influential advisor, Bognár (1980 and 1982) called for changes in the model in precisely those elements which under the NEM remained untouched: the institutional system, foreign trade orientation, and policy priorities in a package. He was joined by other established figures like Nyers (1982), Berend (1982) or Bródy, et al. (1984) calling for limited pluralism as a precondition for market reforms to make sense.

1980. As the Solidarity period ended in the pre-emptive coup by General Jaruzelski in 13 December 1981, the geopolitical constraints on Hungarian reform dynamics had become conspicuous. This explains the hysteric reaction of the authorities[4] on the call for a second economic reform that would have encompassed also ownership relations (Bauer, 1982/84). The piece, written for, and accepted by, the official reform committee (CCER, see below) can, with the benefit of hindsight, be taken for the blueprint of actual changes spread across the 1980s. However, between the end of the Brezhnev era (having proclaimed the dogma of limited sovereignty) and the beginning of the Gorbachev era, making its qualities open in the Reykyavik summit of December 1985 only, several years elapsed.

During this period the Kádár leadership was cautiously balancing between the internal and external exigencies. In Hungarian economic policies the termination of incremental Soviet oil supplies in October 1979 triggered a strategic change, as a personally hurt general secretary had given way to Hungary´s joining the IMF, thereby making the country´s external dependence also formally bipolar. This turn, as could be documented elsewhere (Csaba, 1995), has become instrumental in shaping the balance of forces inside Hungary, turning them gradually in the favour of marketeers. Joining the IMF was a last minute rescue operation for avoiding insolvency. In exchange, the IMF could exert palpable - though by no means dominant - leverage over systemic change in the country. This was formalised in a systemic matrix.[5] This matrix contained a schedule for coordinated systemic changes to be instituted in the 1984-87 period in finances, taxes and import régime. Albeit the deadlines were finally not met, the propositions, reflecting the Washington consensus, coincided with much of what autochtonious Hungarian research had to offer (a point I shall document below). Therefore, with the geopolitical constraints softening, the creeping reforms could, and indeed, did materialise, implementing, by the end of the decade, actually much more than the platform of the second economic reform had demanded.

In the following I shall describe the radicalisation of reform as a rejection of various fundamental qualities of the status quo: planned economy, Comecon orientation, selfsufficiency, the socialist qualities of the redistributory system, public property, central allocation of investments, price and wage controls, state monopoly of foreign trade and forex, and, last but not least, the reformability of the socialist model. Following the experience of 1956, 1968 and 1981, most authors tended to focus their criticism on particulars, not on the basics or the entirety of the system. However, both the implications of these increasingly sweeping criticisms and the coordinated fashion,

[4] The editor-in-chief of journal Ferenc Kulin was sacked, the author was publicly denounced, and each official statement in the following three years have contained a dissociation from the idea of a second reform. Still, the measures in 1984-87 and later in 1988-90 did add up to a second and even a third reform, comparable to that in 1968.

[5] The document was first publicly mentioned in the article of Antalóczy and Kinczer (1995, 60-61); several contemporary officials endorsed this piece of information on the public debate of the manuscript of the article quoted above. The document itself is still classified.

in which these could be articulated, have resulted by 1988 in a near consensus professional view favouring a thorough overhaul of the model itself, i.e. systemic transformation replacing socialist reforms. In the second part I shall survey reflections on the vices and virtues of systemic change. In the third part I shall survey the reforms already transcending, either by their substance or by their implications, the boundaries of a(ny) market socialist model. Part four surveys the transition to capitalism and the related debates. The fifth section depicts the return to the normalcy of capitalist pluralism, i.e. a brief outline of the reemerging schools of thought is offered, while concluding remarks put our narrative in a broader comparative perspective.

2. From Market Socialism to Market or Socialism

As documented in Szamuely (1996b), Hungary never had a strong tradition in market socialism. Those advocating this type of solutions were mostly self-proclaimed nonmarxists, as István Varga, Béla Csikós-Nagy, Jenő Wilcsek or József Bognár, all seeking a modus vivendi with geopolitical realities. This is an important difference to most other Central European countries. The extraneous element has also been reflected in the lack of theoretical generalisations of the Hungarian model.[6] In fact, monographic treatises of this genre were written mostly by those who have remained outsiders to the given reform policies or periods. The first such attempt to generalise the 1968 model was offered by Tamás Sárközy (1973), a professor of law, 15 years later himself a key player in the reforms.

In a bulky volume published as late as 1979 a leading mind in Hungarian planning, Ákos Balassa (1979, 16 and 54) argued for the cross-country validity of the indirect planning model. However, at that time crisis management started to dominate all formal(ised) decisionmaking structures (see below), thus the theory did not sound convincing either domestically or internationally. Then Jenő Bársony (1989), a teacher of political economy (and a pedagogist by training) produced a more convincing case for the same. A fourth such attempt was written retroactively by an Englishman, Nigel Swain (1992), contrasting Hungarian experience with the idealistic suggestions of Alec Nove on feasible socialism. Though many books and articles were written - also in English - on Hungary, on the NEM and later reforms, only the above four monographs attempted to offer a theoretical generalisation, while others consciously avoided any such implication.[7]

[6] This was not self-restraint, but one the few points where censorship was alert. Kádár drew the conclusion, that the Prague Sping failed because of its universalist approach and aspiration to revamp socialism in general, not only to improve conditions with in a Soviet sattelite. Beyond doubt, he would have had even more difficulty in surviving the 70s, hadn´t he adopted this minimalist aproach.

[7] Several authors attempted to establish quantitative and/or causual interdependences on purely economic grounds in explaining the reform cycles - in my view, without overwhelming explanatory power.

This pragmatism had been symptomatic of Hungarian thinking and reflected the compromise with the geopolitical status quo. The concept of economic mechanism had helped to promote what Germans term Ordnungsdenken. However, as some of the key policies were excluded from the areas open to publicly voiced criticism, the evolution into what may correspond to Ordungspolitik was slow in the 1978-88 period. On the other hand, avoiding the hot potatoes allowed much farther progress in understanding the bits and pieces of a free market economy. This included the workings and meaning of much of its institutional infrastructure by the late 80s, i.e. preceding political changes. This has become manifest in the remarkable sustainability and stability of reformist policies over and across frequent changes in the government in 1986-96. On the level of theory the same is reflected in the sustaining neoliberal consensus on and the simultaneous rejection of various alternative suggestions not only at the policymaking level, but also in most of the profession. In many ways this is a sign of pluralist maturity, reminiscent of most OECD countries.

The external constraints and shocks of the 1973-81 period have rendered macro-economic planning an empty shell. Leading officials complained publicly about this. The strong man of the planning board openly conceded the impossibility to manage the economy through any sort of plan as well as their failure to relate plans with regulators, or even to create a congruous policy mix that could have followed realities flexibly (Horváth, 1980, 4). The chief economic policymaker of the Party (also a theorist of planning) rejected the idea of any longer range plan that could list all major policy measures or quantify main processes or define structural changes; planning was seen as a process of dovetailing competing claims for scarce resources (Hoós, 1982, 1305-07). This worldview was, of course, a far cry from the ideas of even revisionist market socialists or even indicative planners. These reflect the rejection of planning even as a serious legitimating principle or part of the ritual. It had become merely part of geopolitical exigencies, even at the official (Party) level.

This final settlement of plan or market issue originated in a vast body of empirical research, having confronted the contemporary ideology - favouring enlightened indicative planning cum NEM in its original 1966 edition - with the realities of the 60s and 70s. These analyses often consciously refrained from drawing the final conclusions or from offering policy alternatives openly, however their message was fairly clear. Analyses of the banking system (Huszti, 1980) in general and the investment sphere in particular (Deák, 1978; Kazinczy, 1981) proved the continued predominance of central, bureaucratic decisions, based exclusively on physical indicators or policy priorities, rather than considerations of return or efficiency in major investments, subsidy and credit allocations. This was though unsurprising in view of the totalitarian political structure, but was at open variance with the self-proclaimed ideology of the NEM. The latter has gradually developed into a main legitimating principle for János Kádár in the period following the invasion of Czechoslovakia and again after the preemptive coup in Poland. Likewise, profits did not orient investment decisions. Conversely, fiscal organs

„secured“ the nominal profitability of investments, based on development programmes. According to Kónya (1978, 104-6), 82 per cent of all investments were centrally decided, even formally, whereas 83 per cent of profits derived from subsidies in 1968-77. In a similar vein, Bartha (1977, 892) critically reported of the continued practice of braking down sectoral targets on the formally independent decentralised corporate sphere. Areas where competing projects could surface at all covered less than 10 per cent of export-oriented investments (ibidem, 897). This was a far cry from the Brusian idea of devolving all current affairs and minor investments (in fact most particulars) to the company level, an idea that had laid at the heart of the NEM.

In theory, the 1968 reforms emancipated both the financial and the enterprise sphere from the bureaucratic tutelage of the plan. In reality, fiscal practices continued to be dominated by immediate policy concerns in more than one plane. As the monograph of the later finance minister Mihály Kupa (1980) documented, fiscal authorities could never counterbalance `planners` [which in practice meant the political leadership (the Party centre)] when major decisions on development projects, major parameters of the plan or economic policy priorities were concerned. On the contrary, by insulating Hungarian markets first from the artificial intra-CMEA, later also from radically changed world economic price signals, arbitraryness in fiscal management reached unprecedented degrees by the turn of the 70s/80s. The monograph called for a major change (diminishing) in the economic role of the budget, especially for the abolition of income redistribution based on individual (corporate specific) deliberations and ones due to price distortions and incomes policy.

As far as emancipation of companies was concerned, progress was limited to small and medium-size firms. Central Party and planning organs continued to play an active role in shaping enterprise plans and not only in intra-CMEA plan coordination. The planjury was a formalised approval process of independent decisions of managers of larger units. Furthermore individual orders and even allocation of scarce inputs, especially imports, remained contingent upon Party interference; companies often themselves insisted on the latter to minimise their risks (Lakos and Jánka, 1979, 144-147). Reflecting on these distortions the earlier quoted volume of the coordinator of medium term plans called for the abolition of sectoral ministries, rejecting administrative interference into individual company cases, and tried to make planning meaningful by incorporating each and every major investment decision into this process (Balassa, 1979, 106-111 and 116-119). This was, of course, naivity, as it stood in contrast to inherent features of totalitarian polity and the resultant decisionmaking practice. The latter manifested itself in informal braking down of plans (by making its computational material compulsory), or the proliferation of central development programmes, rendering the concept of „priority“ and „structural policy“ meaningless (op.cit. 168-9 and 207-214).

If a planner was, of course, unwilling to draw the final conclusion, other analysts were no slow to make the remaining steps. Concluding his two volume monograph on three decades of socialist planning in the whole of Central and Eastern Europe, the seminal book of Tamás Bauer (1981, 536-8.) proved convincingly: the unintended oscillation of investment activity is no less inherent a feature of the command economy than the business cycle is in market economies. Thus contrary to the postulates of Keynes, Tinbergen and the various market socialists, governmental management of investment decisions has resulted in more, rather than less, fluctuation in economic activity, more rather than less waste of resources, less rather than more efficiency, measured at world market prices.

This fundamental critique was reinforced by the parallely launched, though only five years later completed and published volume of Soós (1986), having analysed the post-reform Yugoslav and Hungarian economic systems in a comparative perspective. He asked the question of efficiency of decentralising market socialist reforms, and raised an issue that still counts among the evergreens of reform and transformation debates: the interrelationship between institutional reforms and financial restrictions. Surveying empirical evidence Soós (1986, 488-494) has found a strong positive correlation between the two. He underlined the basically political nature of the oscillation between pro- and antireformist cycles.[8] He referred to several cases of retreat when only intended, but actually never realised, radical projects were aborted by the pre-emptive resistance of the totalitarian political superstructure. Thus he pinpointed the need for open debates and making public choices in making the proreform line sustainable. He also was the first highlighting the irreplaceable role of capital markets for fostering sound and continuous readjustment of economic structures at the micro- and macrolevels alike.[9]

Two fundamentally dissimilar analyses round up the economic thinking of the turn of the decade. The book of János Kornai (1980), Economics of Shortage has enjoyed probably the largest international echo any Hungarian author of economics books ever had. This had to do with the uniquely sophisticated elaboration of the subject by an author, who has been familiar both with Western and Eastern economics. Inventing a terminology of his own - thereby stepping into the footprints of the previous bestseller of his, Anti-Equilibrium - Kornai had skilfully built a bridge between the two worlds. By building up his theoretical construct from elementary phenomena, relying on daily

[8] Tardos (1980a) also pinpointed the limitations of the NEM model, rather than to blame distortive bureaucratic practices alone. He highlighted the lack of monetary integration within the regulated model. As long as 1 Ft of investment is not equal to 1 Ft of wages, central interference can`t be avoided. Individual markets remained segmented also prior to the 1973 oil shock. Calculation schemes and ther controls ensured the survival of the ratchet principle in regulation. Competitve pricing in 1980 imposed further constraints on selfregulation and enhanced to importance of vertical dependencies/bragains, while did increase the role of money (see below).

[9] Typically for the age and the atmosphere the official brochure (Hoós, 1980, 202-215) also goes out of way in highlighting Tardos (1980a) also pinpointed the limitations of the NEM model, rather than to blame distorive bureaucratic the limits to central controls, both of prices, of technological change and even of international relations and their impacts on the planned economy. The auther also calls for a bankruptcy mechanism to accelerate microstructural adjustment. It is remarkable how defetist this view was for an ideologue of planning, in charge of the economic policy department of the Party centre.

observations and Western economic concepts alike, Kornai has made the anti-intellectual, linguistically and conceptually seclusive socialist economics accessible also for the Western audience. He also had triggered a decade-long debate worldwide on the explanatory power of his individual theses. All in all, the concepts of soft budget constraint, shortage economy, monetisation and paternalism have all become parts of the standard vocabulary. From our perspective the basic strength of the analysis was its presenting the command economy as a logically closed system, where all subsystems and phenomena depend upon one another. This is why partial reforms, as price liberalisation, delegation of competences or reorganisations of various sorts were shown to be by definition dead alleys. As precisely the latter were the hits of all the socialist reforms of the 60s, the 70s and even the 80s, this was not an innocent message. Kornai, at this point, avoided to make any allusion to economic policies or the political superstructure. The latter two were commonly blamed for deficiencies. In so doing he highlighted the deeply rooted structural causes for non-reformability. His concluding cautionary remarks on the limitations of human deliberation against an institutionally conditioned socio-economic environment make this plain, and the message was taken in Hungary well beyond the economics profession.

In a completely different approach László Antal (1979) offered an original insight into the entire NEM period. In this piece, originating from the mid-70s, Antal, an influential insider of the Ministry of Finance, gave a detailed account of the emergence of a bargaining society in the place of the enlightened absolutism of Oskar Lange and W. Brus. Unlike Kornai, Antal stressed the fundamental role of the political and the institutional system in reproducing patron-client relationships also in formally decentralised areas. The nature of political hierarchies was blamed for omnipresent economic irrationalities. If the description of Kornai was more in tune with standard Western perceptions of the command economy, Antal highlighted the powers of lobbying large enterprises and regional party organisations. His description was not one of rulers and serves, but of a power game of intricate mutual dependencies and vulnerabilities. In this game central organs were often being captive of the various coalitions of vested interest (like regional, sectoral or ideological groupings).[10] The analysis of Antal, first withheld, later quoted more than any other piece inside Hungary, was rather complementary than antagonistic to Kornai`s view. His broader approach covering sociological and politological aspects made it more explosive in its implications, but sounded more loyal from within the NEM ideological defenses. In a multiactor game no player, not even the strongest, can be singled out to blame for all shortcomings. And conversely in this view, waiting for a good government is no less in vain than waiting for Godot.

It would, still have been misleading to take post-NEM Hungary as yet another command economy. First, the very fact, that deeply critical analyses gained large

[10] At the time Antal elabonted his concept neither Leif Johansen`s article in Kyklos on bargaining society, nor Mancur Olsons book on the rise and decline of nations on the market was yet.

publicity, thus influenced public perceptions seeing the status quo as grossly imperfect, even disquieting. Second, the objective limits to any central control have come to the fore. Third, the imperfections inherent in any reform socialist model were fairly clearly stated. Last but not least, Hungarian reality, too, differed substantially from that in the „fraternal states“. Not only in human terms - like availability of food, a relative observance of privacy, or some travel possibilities - but also in terms of the economic system.

1968 had made two giant steps, what the radical Gaidar government in Russia ventured only as late as September 1992: it abolished compulsory indicators in toto, and it also abolished centralised allocation of inputs. Thereby enterprise management was exposed to the vices and virtues of independent decisionmaking in many walks of life. Most products, problems, situations and financial regulators are too small and too numerous to become subject to vertical bargaining: these had to be taken care of at the local level. This has produced relevant changes in enterprise behaviour, rendering it quite dissimilar to what conventional command economy microeconomics would have suggested.

This finding sums up empirical microeconomic research, which has become a unique and most productive field of critical Hungarian economics. Several authors, disenchanted from, or by definition reserved against, official reform ideology, also sceptical of the uses of improving the fundamentally wrong, produced several interesting pieces describing Hungarian realities at the firm level, from the perspective of entrepreneurs. In an important collective volume (Tardos, ed., 1980, / Hare, ed., 1984) Hungarian researchers were highlighting the wide variety of behavioural patterns that could be observed, which, itself, has been at variance with the uniform centrally planned economy perspective. In the post NEM decade, various managers could opt for competing strategies of success, from more patriarchal to more independent-minded, more monopolistic or more competitive, Eastward- or Westward- looking. In many areas and markets monopoly positions could be overcome, competition emerged and corporate efficiency improved. In other cases countervailing strategies of insiders could ward off these nuisances. Markets for inputs were gradually evolving. More independence often implied more managerial effort to get into sheltered Comecon markets, while getting rid of laborious and unrewarding Western sales. Large firms were instrumental in shaping the contents of central development programmes and intra-CMEA specialisation, formally managed by sectoral ministries. New freedoms of auxiliary activities of co-ops also spread real entrepreneurial behaviour, whereas others were successful in lobbying for more subsidies and for merging their subcontractors. Deficiencies of the non-market allocation of investment resources were amply documented, and the authors called for creating the comprehensive conditions for devolution for awakening the entrepreneurial spirit.

The plurality of successful entrepreneurial behaviour against a non-forthcoming environment was a main finding of Kamilla Lányi (1979) as well as of the monograph on innovation (Laki, 1979). The focal role of state organs in major investments required by major innovations was shown to have lead to a false feeling of security, subsequently to failures in the real market environment. Competition, rather than company size, was shown to foster innovation successes. The more the state reorganised firms and introduced high-tech as part of its technology policy, the higher was the probability of failure of the resultant new products in terms of sales. This finding was an indirect proof of the advances made in actual managerial independence.

This managerial independence was portrayed in voluminous research highlighting business executive overall dissatisfaction with the primitive intra-CMEA environment with its hostility to innovation (Drechsler et al., 1983), its inherent inability to interfirm cooperation (Rácz, 1982), and their resolute change in emphasis favouring Western partners in orchestrating any major attempt to improve any aspect of their activity, against the previous buffer role of the East (Szatmári and Muskovics, 1984; Inotai, ed., 1984). Policies never encouraged such a change in functions: in fact, the latter had laid the micro foundations for the cautious, but manifest, opening of Hungarian macropolicies in the post-1982 period.

But the growth in freedoms had been perceptible also at the level of the individual. Shortages were mild relative to those in fellow travellers, which enhanced consumer sovereignty. The latter further increased with the financial restrictions surfacing in 1979 and in 1982-83, having lead to the sales difficulties referred above. The individual could, and indeed, had to allocate his time increasingly according to his personal preferences to overcome shortages and stagnant real incomes. The second economy, first analysed monographically by Gábor and Galasi (1981) had become a mass phenomenon. The latter has actually molded Hungarian society much more thoroughly than reforms in 1978-87. Therefore it rightly has captured the attention of a growing number of researchers. These often portrayed this area as one of emancipation from governmental tutelage (which was only partly true, due to this sector`s symbiotic relationship to the official economy). Some interpretations, as Gábor (1986) and Mizsei (1987) went as far as portraying the second economy as the somewhat perverted forefighter of capitalist freedoms in the command environment. This seems extreme, due to the cultural, behavioural differences of a state-dependent subsector from a dominant and independent enterpreneurship in the Weberian sense. But the style of the controversy per se was a reflection of actual massive changes that have taken place in the real and behavioural spheres alike. At this time, greengrocers closed down in November in Czechoslovakia, and Andropov organised police campaigns against speculators.

From the present fragmentary survey it should be equally clear why there was a strong professional case in favour of a second economic reform by the early 1980s, and why the political leadership adopted a much more cautious line. When in 1978, and again in 1981, external constraints triggered financial restrictions, which normally bode well for systemic change, the geopolitical situation, as well as fear from the Czech/Polish type of political repercussions of economic reforms produced a hesitant, „conservative“ stance. With both the ideology and practice of macroplanning collapsed[11], the only wayout was the reintroduction as a state of emergency of a most simplistic form of command management (as described in Csaba, 1983). This entailed an extreme form of centralisation, with the governmental economic commission, headed by deputy premier József Marjai, completed with the international section of the National Bank, headed by vicegovernor János Fekete, and by the head of the economic department of the Party, actually formed a trio overruling and dominating the entire formal decisionmaking structure. Although influential analysts, like Tardos and Nyers (1979), Antal (1983) or even Hoós (1981) were no slow in highlighting the dangers inherent in this approach, the short-term improvements in the current account seemed to have lent support to the „firefighters“. With the benefit of hindsight critiques were clearly right in pinpointing the dangers in having opted for systemically inferior solutions in terms of structure, dynamics and lost opportunities alike. The situation, however, has helped discredit all the remnats of planning ideology and of alleged superiority of policy-led adjustments. This was the time when Kornai (1983) replaced the old plan and market dichotomy with the apter bureaucratic versus market coordination. This formulation clearly delineated ideological aspirations from power-centered reality.

The article and the concept was instrumental in explaining the vices of the much debated competitive or world market price system in Hungary. This arrangement (for details see the book of Csikós-Nagy, 1980a) aimed at enforcing international price relatives, especially high external energy prices, in an artificial fashion, through centrally prescribed calculation schemes. Unsurprisingly, the goal was not met, while the previously second rank price office gained prominence against other departments in the bargaining process with enterprises (Antal, 1982). But over and above the bureaucratic intrigue, Hungarian profession was from the very outset (e.g. Hoch, 1979) convinced of the vices inherent in any artificially imposed scheme, calling it a step behind the 1968 practices, even though it happened in the name of the most enlightened ideology.[12] Kornai`s new terminology thus formulated a key quality of the market as a spontaneous order (in Hayekian sense). Thus Hungarian theorists ceased to think of any optimal project or design, which later also molded the Hungarian controversy on privatisation, making it so distinct from similar debates in other transforming countries.

[11] Empirical research has also highlighted: the plan has lost its relevance as a main decisionmaking and iterest coordination mechanism well before the extremist crisis management scenario. The close-to-official Román (1980) complained: while plans should check the consistency of major investment decisions, the latter are taken even vertical bureaucratic bargains in shaping both form and contents of structure forming investment programmes. Others (Schweitzer, 1981) pinpointed: these bargains finally do accomondate all those interested, „only“ points of innovation, efficiency and competitiveness suffered from the nature of decision-making.

[12] Which was, in the view of the architect, Csikos-Nagy (1986 p. 76) the Lange-Lerner model. Hungarian experiece proved the limits of any such simulation-as retrospectively himself concluded.

With the imminent crises - current account and geopolitical - gone, the[13] leadership gave in to some reforms in 1983. This gave food for thought for dozens of actively hundreds of indirectly involved economists to reflect upon the type of market they are after and ways of transition to their target model. It allowed for confronting various ideas, options, contrasting these in public, and to some extent influence the course of events, and thereby receiving a feedback.[14]

Interestingly, in contemporary official thinking the state of emergency enjoyed much more sympathy than one could have assumed. Official thinking seem to have been convinced by the radical improvements in the current account, whereas the complaints on the growing dynamic and structural costs tended to be belittled as abstract theorising. Typically, both command methods and a deteriorating export structure were presented as acceptable short-term costs, with not a single word uttered about dynamic efficiency (Hoós, 1984, 116-120 and 162-3). Other officials also took it for granted that economic disequilibria, especially in the current account, do justify delays in more radical reforms (Csikós-Nagy, 1984). This is not only about the inverse of what later was known as the Washington consens and the contemporary recommendations of the IMF, but is reminiscent of the debates in the post-Soviet area a decade later.

This was all the more disquieting as arbitrary „operative interference" by Party and state organs and their reliance on command methods tended to become a standard practice across-the-board, also in areas previously not considered to be prime subjects to such influence. The latter included industrial cooperatives (Laki, 1983) agriculture (Hanyecz, 1982) and - last, but not least - foreign trade (Gács, 1986). This had nothing to do with the culmination of the indirect system and the victory of bureaucracy operating it (Révész, 1988, 669-670). On the contrary, this added up to a complete revoking of the liberties granted by the NEM, both from most of the formal rulers (bureaucracy) and from the ruled, who were not supposed to obey to any informal pressurizing. Actually, the vast majority of bureaucracy must have felt emasculated by all or most of its powers taken over by a central gang, not legitimised by any rule or procedure. This also explains why so many departments, previously hostile to marketeer ideas, like that of planning or foreign trade, tended to espouse them. This is why thinking and talking (if not acting) neoliberal has gradually become the fashion in most of the state administration, especially, though not exclusively, among the younger and the better trained. This rather widespread change in the mood explains much of how both reform ideas and reform policies could be radicalised under an increasingly senile political superstructure. The latter background should always be kept in mind when evaluating the ideas discussed below.

[13] With the death of Brezhnev, power struggles in the Kremlin erupted, and Andropov sounded reformist. Meanwhile in Poland General Jaruzelski introduced a reform, which looks timid from today`s perspective but was more radical than any of its predecessors. Kádár was thus counting on a reformist trio to emerge and avoid isolation within the bloc.

[14] As documented in Antalóczy and Kinczer (1985) and Csaba (1995).

Authorities felt quite confortable with a chaotic system, whose rationality and „Salonfähigkeit" was less than trivial, as long as it was delivering a satisfactory performance on the current account. Meanwhile, the economics profession was decreasingly convinced of the thesis seeing monetisation as the centerpiece of the whole reform, rather than devolution of authority (Csikós-Nagy, 1980b). No serious analyst has even condoned the status quo or suggested a reversal to the practices of other socialist states. The question was only: through what way, to what market? The more general answers were given in works by Tardos (1982), Bauer (1982) and Antal (1982), with their call for a second, more radical reform, rolling back the state and extending market coordination to capital allocation, valuation of corporate assets and to foreign trade. Each of these went much farther than the original NEM project of 1966, as economic policy, foreign trade and the institutional system were all encapsulated in the new platform. While representatives of this line of thought were banned to small circulation journals, whose editors were often harassed or even persecuted, the Institute of Economics was commissioned to elaborate a comprehensive reform programme (IE, 1983), and the coordinating committee on economic management (CCEM), an interdepartmental organ directly supervised by the economic section of the Party, continued to discuss intensively radical projects to be legislated from 1984. The latter provided stimulus to researchers and the thus induced dynamic thinking proved more important than the actual policy outcome, and never ceased, not even after the promulgation of one or another measure.[15]

The IE project launched an all-out attack on discretionary decisionmaking, both in the form of „operative interference", orders, phone calls, as well as in the more traditional form of individualised, company- and sector- specific regulation, as practiced in 1968-78. It declared the principle: in the competitive sphere only self-regulation of market forces is acceptable, without any ifs and buts. It called for a simultaneous liberalisation of imports and prices rather than to wait for equilibrium to be restored first through commands. It called for investments to be allocated following profitability, via decentral decisions of firms, for abolishing wage controls and also for the emancipation of the private sector, not only of coops. Demonopolisation of home and external trade was urged, while noting: freedom of entry for new agents is more relevant for a market orer than any administrative chopping put of large firms. This is a particularly important point in view of the deconcentration campaign of the mid-80s, which gave food for thought for several analyses (see below). Similarly, the pressure for exit was also highlighted, as this allows for the market to clear: thus bankruptcy is far more important than the creation of any optimal industrial pattern.[16] Analysts of the Institute

[15] This internal dynamism was, in my view, somewhat downplayed in the famous survey article of Kornai (1986), having confined itself to a selection of the published output. The latter, being only a tip of the iceberg, was therefore rightly blamed for not facing the underlying structural and functional constraints, inherent in any market socialist reform project. The lure to offer something marketable, of course, enhanced analyst`s willingness to put up with political realities of the day.

[16] By proving the impossibility of defining this target, the book of Schweitzer (1982) gave a lasting critique of both earlier centralisation and (later) deconcentration campaigns, conducted by a central agency (including the privatisation agency).

also called into question the rationale of (limited) self-management for enterprises, as this was shown to be in conflict with the function of maximising asset value, as well as with capital reallocation according to considerations of recoupment.

Policymakers rejected most of the substance of the IE paper, retaining only some of its language. Contemporary adherents to the upcoming self-management school (Csillag, 1983), coming from the young Turks of the Ministry of Finance underlined: in the lack of a capital market only a social counterweight can protect management against bureaucratic arbitraryness[17], whereas state holdings tend to be misused by bureaucratic and political special interest groups. The victory of the latter consideration has become a source of dysfunctions by the end of the decade. True, such institutions, policies and processes emerged in the following years that none of the theorists of the early 80s could have visualized; these have certainly changed the contextual relevance of individual options.

The final edition of CCEM reform blueprint (Gadó and Varga, eds., 1984) was a serious disenchantment reflecting the all-out counterattack from the ideological wing of the party (Kozma, 1982), as well as the antiinflationary concerns voiced recurringly by its general secretary. The compromise, struck for the April 1984 central committee meeting proved much too elaborate, leaving all sides equally dissatisfied with the outcome. The more general part of the project (esp. 83-91) was a rehash of the old regulated market model, where market is a mere instrument, and major investment decisions are only influenced, not however guided by its feedbacks. This was, of course, an extremely backward position for contemporary standards. To illustrate this point, let's suffice to quote the always circumspect insider Csikós (1983, 730), who cautions against price liberation, does not see trade liberalisation possible, but finds it absurd if investments continue to be allocated along technical-economic criteria. This, as seen above, reflected a professional consensus. It was a weak counterweight in the CCEM project (286) to state that centralised investments, too should follow the profitability principle, in the spirit of Lange. Both in home and external trade a very restrictive stance prevailed, justifying quotas, orders, administrative interference of any sort. Centrally set prices still covered nearly the half of all prices, and bureaucratic wage controls remained in place. Most „progressive“ elements in the CCEM blueprint served to curtail current fiscal spending, while leaving most systemic features intact. Three areas indicated some progress. 1. Banking reforms were launched, by accepting the model of a two-tier banking and parliamentary control over money supply targets, to be elaborated by the central bank. 2. The idea of maximising asset value (105-6) first ever emerged in an official document. 3. Formation of enterprise councils, with the election of managers, was approved.

[17] It is important, that in Hungary there was no strong theoretical backing for the idea of pure self-management, given that autochtonious socialist movement has remaind so weak. The only serious proposition in this vein, that of the Workers Council of Greater Budapest of 1956 was aborted (Pető and Szakács, 1986, 343-368). Adherents to this concept in the 80s used it merely as an instrument fighting omnipotent state bureaucracy, i.e. took it as a means, not as an end.

All in all, where it did signal change, the CCEM remained vague and the April 1984 Party decision[18] signalled a stalemate in all issues except point 3. This has stimulated further activities, as also stipulated by the decision itself.[19]

This strange deal was well reflected in a position paper by the two leading personalities of the CCEM, Pulai and Vissi (1984), highlighting a new medium-term reform project. This contained important deadlines - as 1987 for the introduction of a conceptually new system of taxation, similar to that of the EC countries. Furthermore it contained important new elements going way beyond the confines of the CCEM project, dated only 6 months before. This included a demonopolisation drive, delineation of legal, market and ownership control, as well as adversing the issue of capital market.

It would be hard to comprehend this swift change of mind without the widespread feeling of a crisis. This had to do with the loss of perspectives, which was a writing on the wall for a régime which had pacified its citizens via buying them out through constantly, though modestly growing living standards. And 1984 was already the sixth meagre year. Were there new growth prospects around, a sigh a relief could well have been heard. But this was not the case. The chief planner (Hoós, 1984, 16) was quite plain in stating: recovery of domestic demand could not be expected before the 1990s. This meant the drying up of the base for the post-1956 social compromise.[20] Others (Nyers and Tardos, 1984) contended: there was an alternative, had systemic reforms proceed more radically, than envisaged in the CCEM paper. This, however would have called into question „proven" ways of controlling societal consequences of economic processes, like price and wage controls, entry and exit of firms, the monopoly of foreign trade and centralised money management. But this was precisely what János Kádár disliked the most. Inflation in 1945-46 and massive dislocations under Rákosi were to be avoided, irrespective of, the ways and means this could be achieved.[21] But unlike in 1956, this time the Soviet Union was of no help, even in perspective, as Hungary´s chief negotiator stated quite plainly following the failed Comecon Summit (Party, 1984). The circle was thus closed, which opened the gate wide for airing previously unshakeable reform ideas on the domestic front, whatever Moscow thought about them. The latter was a true novelty vis-à-vis the practices of the preceding forty

[18] English version available in Acta Oeconomica, 1984/1-2

[19] The final version of the „old" one (Pulai and Vissi eds., 1985), explaining and commenting what materialised of the (Gado and Varga, 1984) volume, was therefore out of date at the time of ist release.

[20] This finding has decisively molded the contemporary felling of crisis. The minister for plaining, not belonging to the reformist camp, himself put it in terms of dilemmas between growth and equilibrium, structural change and scarce investment, decontrol and manageability (Hoós, 1988). Unsurprisingly, he called for more vigorous structural policies as a wayout, thereby disregarding both the decay in political structures and the quite important new findings of contemporary critical economics, as his optimal wayout was already closed. Meanwhile, as Béljácz (1986) rightly pointed out, centralisation in actual investment decisions even increased, as financial restriction imposend irrealistic (30-40 perecent) annual return requirements on enterprise inverstments, not supported by central preferences of any sort.

[21] A participant recalled the April 1983 meeting of the CC, when Kádár noted „Comerades, you must have misunderstood the task. What you suggest would mean that the market dictates prices and we adjust. No comerades. We pay you, to deliver us the prices which get our policies through!"

years. Thus fairly direct criticism proliferated and spread over previously forbidden areas.

The fundamentals of economic policies were often questioned in the literature on foreign economic relations (see below). However, the book of Béla Kádár (1984) questioned the rationale of contemporary policy priorities in toto, when it proved: security of supply considerations, priorizing the primary sectors, while aiming at technological invulnerability were all at odds with main tendencies that could be observed in successfully adjusting developed and developing countries. He was highlighted the relevance of joining in the multinational inter - and intrafirm networks, especially in technologically more advanced subsectors, both for R+D, product development and for market entry. This added up to a full-fledged horizontal critique.

In a much quoted monograph, László Antal (1985a) synthesizing his previous findings came to a fully-fledged vertical critique of economic policies. He talked about a regulatory illusion (146-166) reigning among those on the commanding heights and highlighted the role of invisible, interest-related mechanisms of decisionmaking. In the second part he viewed the model of NEM basically as an illusion, where some softening up occurred, but the major principles - like tying incomes to profits, or applying generally valid financial rules - proved to be impractical. Plan-bargaining was substituted by bargaining over financial conditions. In the third part he identified the minimising of strains and frictions, rather than any idea or model as the „Leitmotiv“ of the system, where restrictions only breed new restrictions, and even the remands of rationality is lost. With no increments to be redistributed, economic policy has reached its outer limits, as there was no room left for it to influence actual processes in any significant way. This rounded up the view of a dead alley, with the system heading for implosion, without any external influence, following its own logic.

What Antal presented as a postulate, Szegvári (1988a) established as empirical evidence. Analysing the 1979-86 period he talked about an implicit economic policy to denote actual priorities, which were only loosely related, if at all, to formalised procedures, plans, policy documents and other fancy inputs of classical Sovietology (later transitology). The complete decoupling of formal and real powers and policies, the growingly irrelevant regulatory and policyforming rituals, as observed by an insider of the supreme planning organ, were clear signs of decay in the macrostructures of overripe socialism. When objectives and outcomes are not even loosely related, it does not take a Gorbachev to get an implosion at any moment, provided external military suppression is not imminent. The Jaruzelski coup had already indicated Moscow’s limited ability and willingness to intervene. This was reinforced in the post-Reykjavik phase and became irrevocable, owing to the simultaneity of erosion and crises saddling both the internal and external Soviet empire. As Szegvári convincingly documented, not even the supreme/sole priority of acceptable current account performance could be sustained, as external financial disequilibrium was immediately reproduced, and even worsened, at any time the government only thought of steering some growth in the stagnant economy.

In this overall looming of crisis, analysts turned in part to empirical research, as quoted above, in part to elaborating what a well functioning market economy would require in concretu. This produced a variety of pieces in the middle of the decade. A later minister of finance, writing together with later governor of the central bank offered a parallel historical and logical overview of the evolution and role of money and market in the modern economy (Bokros and Surányi, 1985). This was an attempt to address the ways and means of overcoming an institutional and structural crisis, which they took as a starting point. The historical survey proves the qualitative superiority of market as a coordination mechanism against any other, especially bureaucratic, forms. The second part addresses what the authors hsaw as a fundamental flaw for a market economy: inflation. They severed the conditions of Kupa (1980) highlighting the rigidity of any fiscal commitments and disputing the existence of a „natural“ deficit, which could and should be tolerated, (280-289) as it is likely to produce only higher inflation, not more marketable output. Therefore a restrictive (neutral) monetary stance is a precondition for external equilibrium to sustain, and adjustment to accelerate. Their concluding chapter (319-328) highlighted the dire need for financial institutions able to promote self-correcting adjustment both at the enterprise and in the monetary spheres. In an important peculiarity, the authors` fight against centralised price and wage fixing, calculation schemes and the like did not lead them, as most contemporary reformists, to a lenient stance on inflation, as an inevitable by-product of structural changes.

This call also helped a better delineation of the monetary and fiscal spheres as well as the respective policies. Analysts of the Institute for Financial Research (Asztalos, et al., 1984) highlighted the need to regulate macrodemand through money supply, which, in turn, presupposes an independent central bank. Only asset value maximising, freely operating financial institutes, not serving fiscal or sectoral purposes may qualify as commercial banks. These steps require that no physically predetermined plan or developmental project be automatically financed, and that legislation could set limits to the monetary financing of fiscal deficits. Only if all these conditions are met, can commercial banks compete and operate on the business principle.

But this line of thinking had to be generalised and extended well beyond the financial sector. Not only financial institutions but the entire corporate sector has to adopt the function of asset value maximising, which is quite unlike profit maximisation year by year, as stipulated by the NEM model (Antal, 1985b). In this line of thought there’s no sense to delineate running and structure- determining decisions, i.e. the foundations for centralised investment management are gone. This leads not only to the question of freedom of entry, an issue basically accepted in the contemporary official vision of a multisector economy, but that of exit. In theory, there’s nothing easier for a totalitarian state than to close down any economic unit. However, in Hungarian post-NEM reality, with the resurgence of the idea of corporate independence, this time supported by elected enterprise councils from 1985, closures were practically nonexistent. Thus small wonder if official working documents of the CCEM openly discussed Western style bankruptcy arrangements as a means to manage enterprise crises in a decentral manner (Matolcsy 1984). The idea of creditors enforcing the liquidation of their hopeless debtors emerged. Analysts of the National Bank (Jánossy, 1985) seconded by highlighting: unless the need to retain liquidity, at any rate, becomes the supreme maxim for managers, there will be no pressure to divest and reinvest, i.e. for structural change undertaken for microeconomic considerations. Experts of the ministry of finance called for setting up reorganisation agencies, specialised on dealing with the problem firms (Asztalos, 1985). Unsurprisingly, legal experts were no slow in elaborating a bankruptcy legislation modelled on the rather soft West European procedures (Tőrők, G. 1985). The law took effect from August 1986 and influenced mostly the small and non-state firms. Dramatic market clearing has not taken place (similarly to posttransformation experiences in many other countries). Authorities tended to discourage any such case that would have involved larger units, or on occasion, they positively bailed out large „political“ firms. This notwithstanding, the public perception and also the bargaining position of the latter were seriously shaken by the adverse publicity surrounding the bailouts, and discussions over who actual pays the bill intensified.

3. Reforms beyond Socialism

From the mid-80s the Hungarian economic thought evolved in four main directions, covering the organisational system, financial sector reform, property rights and foreign trade orientation.

A. The organisational system remained one of the taboos in the post-NEM period. Furthermore it was common knowledge that the monopoly system, created by the 1962-64 centralisation campaign had been a serious impediment to any market-type behaviour. Large firms and sectoral ministries were rightly seen as the driving force behind the recentralisation tendencies. This notwithstanding, except for marginal steps, like merging the three industrial ministries into one department in 1980, or merging the external and home trade ministries in 1986, not much has happened. As the contemporary (best-seller) account of an insider, Tamás Sárkőzy (1986) explained in detail, two major trends of thought emerged in the reformist camp. One - including Sárkőzy - saw sectoral organs and party control as the larger evil. In order to restrain this by a centralised functional governmental pattern, it was ready to compromise with socialist industrialists. The other, mostly rallying around the minister of finance István Hetényi, tried to brake the backbone of the lobbyists first and foremost, therefore they supported financial sector reform and small-scale enterpreneurship.

The second line of reasoning very strongly capitalised on the aforementioned trust-busting ideas of the CCEM and initiated a centralised deconcentration drive against the large conglomerates. Whereas the first group were thinking of a Treuhand-model, i.e. a ministry or a national property fund, the second supported small business and deconcentration, i.e. competition from below. Whereas the first group saw concentration as an objective trend of modern organisation in any sector, the second (Csillag and Lengyel, 1985) highlighted the role of small business and competition, both for societal and economic considerations. This was a clear break with the NEM having tolerated auxiliary activities of coops, or even with its 1981 edition tolerating the same for industry and services: it was a call for new and potentially dangerous entries. The above quoted volume was quite critical of intra enterprise partnerships (vgmk) for their having been integrated into socialist hierarchies. This was an important change in emphasis at a time when already 4 mn people were involved in small scale private activities, and only half of them in agriculture; the lack of competition (as well as the artificial benefits provided via taxes) was clearly distortionary (Révész, 1985, 96).

The organisational system has thus had a good reason to become the hit of the mid-80s. Detailed multiyear analyses[22] produced fairly strong evidence calling for deconcentration as a precondition for market regulation to make sense: from retail trade (Karsai, 1988) to trade in intermediary goods and inputs/wholesale trade (Köbli, et al., 1986) and even in the previously sacrosaint foreign trade (Pete, 1984; Salgó, 1989). These more technical arguments were supported by sociological research, having highlighted the active, but harmful, role of the large socialist firms in setting actual investment priorities (Szalai, 1981), and in creating an unhealthy stalemate thwarting any major reformist endeavour (Voszka, 1984).

Therefore, summing up a nation-wide research having produced no less than 234 longer studies Sipos and Tardos (1986) also called for changes in this area, as they saw the organisational system as the major impediment to market-type behaviour in all sectors and in all property forms. They blamed this for restrictive financial policies (in 1979-84) not having brought about restructuring, needed for a new growth path. They also underlined: unless asset value maximising and bankruptcy orientate firms, devolution of authority breeds only more inflation, not more efficiency (a point later frequently raised - Western theorising on reforms).

The reformist part of the government translated these findings into policies, which attacked the ossified trust organisation both from below (via bankruptcy legislation and the enterprise councils) and from above (by administratively chopping up large firms and encouraging secession by remote plants or certain viable organisational units). This

[22] These were finally bublished in a fairly erratic fashion by various publishers and journals at times quite inrelated to when the pieces originated, but this (the date of publication) should not coufuse retrospective analysis.

idea - later also advocated as a precondition for viable and efficient privatisation (Newbery, 1991) - proved to be a complete failure. Not only because of foreseeable resistance by adversely affected groups, which included sectoral ministries, regional (party) organs, unions and even intra-Comecon clients. Not only because of the centralised polity's propensity to comfortable organisational patterns and the avoidance of conflicts as the superb maxim of the late Kádár era. Empirical analyses of the process (Voszka, 1988; Vince, 1987) have highlighted the fundamental arbitraness of any central(ised) decisionmaking over microeconomic issues. In other words, reformist, enlightened bureaucrats couldn't but take equally silly decisions lacking concrete microeconomic justification, in terms of efficiency and for maximising asset value, as could old-fashioned adherents of the status quo ante. This evidence may explain why calls for more active industrial policies under weak markets found next to no echo in the 1990s.

But at the time, the failure of deconcentration gave birth to a (still popular) theory of extreme viability of intertwined structures of polity and economy, which formed a backbone of ruling hierarchy, and in turn molded any reform rather than let itself be retailored in a typically constructivist manner (Szalai, 1989). In hindsight, this approach underestimated the political nature of fundamental vertical dependences, having dominated under the socialist model - a point very convincingly made by the grand retrospective economic analysis of János Kornai (1992) and the political scientist Mária Csanádi (1995). Meanwhile Szalai seems to have overestimated (or overgeneralised) the stalemate typical of the late Kádár period. In addition, the international - imperial - dimension was left completely out of sight.

The failure of the deconcentration drive of the mid-80s, thus proved both the complexity of economic order, far exceeding any of its important constituent, as well as the limits to human deliberation and design in shaping a spontaneous order in detail. Thus it is unsurprising that a further radicalisation of reform projects spread over to politically sensitive areas, as the capital market, property rights and foreign trade orientation, thereby calling into question the entire raison détre of the socialist model as a systemic totality.

B. In the second area, financial sector reform progress was rather quick, self-propelling and linear. Banking reform and much of the institutional changes, that make monetary policy meaningful, was accepted in the ever more forthcoming official stance. As the 1984-85 growth acceleration attempt was in definance of both the IMF and domestic reformists, the collapse of this course by 1986 had automatically strengthened both camps. Authorities had to be more attentive to IMF advice, and these were asking for the measures listed in the 1984 matrix, referred above. Meanwhile the previously surveyed domestic analyses also were stepping up pressure to proceed with financial sector reform as the only way to improve allocative efficiency, and generate growth under severing external constraints.

Following the turns and twins of bureaucratic infights (on these cf. Antal and Surányi, 1987) and overcoming the resistance of the central bank, a two-tier banking system was introduced, by delineating the sectoral directorates of the National Bank and turning them into three independent financial organisations. As the contemporary description (Bácskai, 1989) indicated, these were burdened with old debts and forcibly allocated clients, heavily undercapitalised in terms of infrastructure and human resources, and operating in a less than free price system distorted by proliferating subsidies. Unsurprisingly, architects of the change (Bokros, 1987) were quite clearly stating: conditions for business-like behaviour have not been created, as guidelines for credit policy continued a practice of indirect braking down of plans, whereas the very act of `censoring` credit requests would exclude the enforcement of governmental preferences and maintenance of a pre-set clientele. Representatives of the central bank were no slow to respond: this reform fell short of creating the conditions for a truly independent monetary authority, and the new banks couldn't operate as money managers either (Bódy, 1988). Macroanalysts blamed not only the half-heartedness of the organisational measure, but highlighted the lack of two further conditions: an interest in asset value maximising - i.e. private property - both in banks and in the corporate sector, and the lack of a real capital market (Tardos, 1987).[23]

This rounded up the transition from an ever more radical socialist reform to a model of private capitalism with no governmental control over resource allocation at the macrolevel. This finding was supported by a monographic description of the post-reform bank and credit system in Hungary, blaming it for the lack of long term capital allocation mechanism (except for the plan) (Antal and Várhegyi, 1987). The latter, in turn, explains the institutional rigidity of supply in the longer run. The book offered a detailed list of the variety of methods how the function of profit (recoupment)-oriented capital reallocation was about to be substituted in the Hungarian practice in 1967-87 in vain. Simultation proved to be a dead alley (and this equalled to the death sentence of any form of market socialism).

If no capital market exists, state (administrative redistribution remains the sole means of capital allocation - and this was experienced to be inevitably distortive and lacking efficiency. Thus there remained no room for the state to be rolled back. Growing decentralisation of decisions was no answer to this dilemma: it only aggravated macrostructural strains; while demand management remained the job of fiscal policies (and could only be performed poorly). Actually, this was the time when the need for a thorough budgetary reform became public (Hetényi, 1988a). The analyses indicated the state-owned sector´s functioning with regularly lower efficiency in each and every area, further it criticised the excessive share of economic outlays in total fiscal spending.

[23] In turn, real (private) banking and a capital market condition a banking system which is a far cry from what the 1987 bank reform delivered: the contextual change would have justified a second, much more radical banking reform (Asztalos, 1988), which, actually, never materialised. Instead, centralised bailout procedures (first companies later of banks) tried to address this issue (see below), as long as the 1996 privatisations settled this issue.

This, of course was only one step from first calling for, later creating, a capital (stock) market (Járai, 1989).

C. It is in this context that the obscure scholastics of previous decades on the property issue have gained in significance. Under the geopolitical constraints of Hungary both private property and real selfmanagement were non-starters. Meanwhile, debates over coops and small business often were sheer reflections of contemporary Soviet vigilance, or worse, of counter-productive activities of police organs. With the introduction of enterprise councils in 1985, bankruptcy legislation in 1986 and commercial banking in 1987, ownership developed into a serious issue, affecting power and the rules of the game.

The internal logic of theoretical evolution coincided with the geopolitical emancipation of the country way above the level conditioned by the offences having suffered by the Kádár leadership in 1981 and 1984. Therefore it made increasingly good sense to raise the previously swollen fundamentals. In a book published by the Party press, Sárközy (1987) discussed not only his pet idea of a Treuhand-type supraministry, but advanced the thesis of the corporation being a socially/politically neutral form of enterprise organisation. As this thesis remained uncontested and the author soon became the mastermind over economic legislation, this paved the way for the massive corporatization of Hungarian companies, two years before true privatisation was put on the political agenda in 1990. This, of course, was a vital step to turn the unsophisticated socialist enterprise into a subject of commercial law, and by implication, later of commercial deals.

The earlier quoted radical reform platform of Tardos (1986) already called for the complexity of market regulation on all commodity and factor markets alike, which makes sense only under a predominantly private property régime. The capital market and asset value maximisation are also truly capitalist institutions, especially for a country with no real selfmanaging and third road traditions. This arrangement switched off the heart of the socialist model: centralised investment allocation decisions. Finally the article of Kornai (1990a) was already crystal clear in stating: if one opts for market regulation on efficiency grounds, as the vast majority of Hungarian economics profession did, this also implies an option for private property and capitalism.

Following the long-lasting theoretical experimentation, aimed at escaping this very conclusion, the otherwise simple finding signalled a decisive turn in Hungarian theorising on and policies of systemic change. Far the best survey of competing contemporary concepts and arguments on ownership reform offered to date, by Kőhegyi (1991), supports the view that this lengthy debate has contributed little original and relevant to understanding either the peculiarities of Hungary, or general laws of economics, or even the specificities of recreating the market. The debate was loaded with ideology, and halfway-house solutions, whose sincerity or soundness was subject to doubt from the very outset. Kőhegyi, however was right in establishing the lack of proprietary control (later known as corporate governance) as one of the lasting problems saddling systemic change - an issue we`ll discuss in the next chapter of this study.

D. Foreign trade had been the area where theory and practice were most divorced until the turn of 80s/90s. While those working on this area normally spoke foreign languages, travelled abroad and were much exposed to both Western theories and practice, foreign trade remained one of the areas under tightest control. As the book of Salgó (1989) documents in detail, this applied both to the screening of personnel and to the type of political and security controls penetrating the area. On top of it, not only the 1966 NEM, but even the 1984 CCEM project contained a series of politically motivated compromises with the traditional command economy model. This was justified insofar as a small open economy is by definition unfit for central controls to sustain. If embedment in the Soviet empire still made a vertically integrated and closely controlled polity imperative, this involved a centralised foreign trade and forex system, irrespective of its economic irrationality. Should this iron law not be observed, the command system collapses - this could be observed in 1989-90 in Hungary. But also, for macroplanning to make sense, a small open economy must be embedded in a planable international environment (which was Comecon).

Therefore it is hardly surprising that both the 1966 NEM model and all of its later editions retained a series of debilitating brakes on foreign trade and, by implication, on the scope of market coordination both at the macro and microlevels. In part it was justified by the unreformed Comecon mechanism. As both 1956 and the 1968 Czech experience were indicating the limits to even theorising about leaving the bloc, this was taken for granted in the larger half of Hungarian foreign trade. But in the theoretically more relevant Western half, the 1966 NEM opted for the use of average rather than marginal rate of exchange with the resultant plethora of levies and subsidies, not to speak of continued reliance on quotas and licensing and an arbitrarily structured customs system (operating from 1973). Monopoly of forex remained a „triviality“, and a call for its loosening, made five years after Hungary´s IMF membership (Deák, 1987) produced hysteric reaction from the central bank.

Under „the state of emergency“ these controls only intensified, and their loosening in 1985-87 was due to the overall erosion of central power, rather than to reforms. As Oblath (1988) rightly emphasized, this resulted in a system of de facto multiple rates of exchange and an overvalued currency inviting a plethora of administrative interferences.

This sorrowful backwardness of practices coexisted with a colourful, critical, stimulating and radically progressive stream of theoretical writings, often serving as a pretext for calling for much more radical reforms than the authorities of the day were willing to tolerate from pieces directly accessible to them, on Hungarian domestic policy and systemic options. This applied although authors were often quite plain in making their points. The following highly selective overview is dictated by the imperative of self-restraint in maintaining the overall proportions of the present survey.

The predominantly[24] apologetic literature on international economics entered a new phase by the publication of the book by Béla Kádár (1979/84) at the turn of 1978/79, i.e. simultaneously to the policy debacle of the decade and the resultant turn in favour of NEM. Béla Kádár contrasted the whole philosophy, policy and system in the socialist world to the post-oil-crisis realities in the industrial countries. This counterposition highlighted the multidimensionally antiquated qualities of `the most advanced mode of production in the history of mankind`: the onesided emphasis on heavy industries, the neglect of technology, informatics and electronics, i.e. the driving forces in the modern age, cultivation of a societal environment positively harmful to the most dynamic elements of international competitiveness. The world was shown to be unipolar, with CMEA countries loosing out in their competition with developing nations. Import substituting policies were blamed for the fiasco. Kádár warned of the cumulative lagging behind inherent in the structural priorities in socialist industrial development, and aggravated by its defensive, import-restraining answer to the oil shock.

These findings were supported and complemented by an equally path-breaking monograph by András Köves (1980/85) on the consequences of international embedment of socialist countries, especially Russia and Hungary. The book laid the emphasis on the impossibility of maintaining a seclusive policy stance, despite the post-Afghanistan animosities, highlighting the structural dependence of Russia on the West. It highlighted the dire consequences of import-substituting policies in general and intra-CMEA self-sufficiency grand projects in particular, blaming these for the ongoing erosion of terms of trade, as well as for the reproduction of external financial disequilibria.

Rounding up the theme András Inotai (1980) asked the question about the relevance of regional groupings (finally CMEA) in the changed world economic environment. He has found this not to be the main path of development, especially for small, successfully adjusting and fastly growing economies. The limits of regionalism have to

[24] A notable exception to the rule was the monograph of Sándor Ausch (1969/72) on Comecon, having served for two decades as a Bible for any serious analyst. As the analytical part remained valid, it tended to be forgotten that the author visualised a bloc of reform socialist states, as it seemed to emerge in 1966-68, although it contradicted to elementary geopolitical realities of the Soviet empire. Books by Gy. Becsky, B. Kádár, J. Bognár and F. Jánossy may, among other, be added.

do with the emergence of global corporate networks, financial innovation and other changes de-emphasizing historic and geographical components in the choice of partners. Thereby the ills of the East Bloc were shown to be more fundamental than its institutional peculiarities alone would have justified. All three books implied a call for a radical reorientation of commercial relations from East to West.

Similar findings were derived from the financial and empirical schools already discussed in the preceding chapter. Analysing the experience of the post-oil-crisis period the close to official Wiesel and Wilcsek (1978, esp.46, 77, 163 and 213) highlighted: controls on forex could not protect any economy from external stocks. They also disproved the majority belief as if convertibility were a function of the level of development, rather than that of liberalisation in the economic system. Analysing the chaos in foreign trade regulation and in intrabloc trade in particular the monograph of three financial experts (Botos, Patai and Szalkai, 1980 esp. 240-244) concluded: it was the interest of large socialist dinosaurs which excluded any real competition to emerge. The same consideration molded financial arrangements more than any ideology or economic school of thought. This reproduced „socialist comparative advantage“ in maintaining a lukewarm, but stable environment in a hectically changing world.

The point viewing autochtonous interest, not only Soviet pressure in the reproduction of the shadow world of Comecon has had important bearings on how Hungarian economics viewed the functioning of the economic system and available policy options. Looking at this comfortable world Bauer (1979) concluded of the hostility of this environment to innovation. Reflecting on this Tardos (1980b) dispelled the myth of the 350 mn strong Comecon market, as it was segmented by the bilateral trade relations, and further split by hard and soft commodity groups. Its nature was shown to have been hostile to the market outside of it precluding it to serve as a training ground for companies` entry to truly competitive markets. In another article (Tardos 1980c), he cautioned of the disruptive consequences of financial restrictions in a nonmarket environment, and further elaborated on the vices of Comecon stability for competitive corporate behaviour. Namely that the monotonous growth of profits, coupled with onesided emphasis on economies of scale, made management hostile and suspicious against any cycles and uncertainties, inherent in the international market. Moreover, specialised production proved often non-marketable even on Hungarian markets, not to speak of the West.

The comfortability of environment, allowing for a non-adjustment to a changing world was blamed for financial disequilibria by a powerful analysis of Köves and Oblath (1983). They highlighted: there’s nothing pathological in the growth of imports from the West, as this was the condition of any modernisation or growth to materialise. In a different article Oblath (1980) rightly blamed the „competitive price system“ to disorient companies more than ever by having replaced the natural relation, created by the exchange rate between domestic and foreign prices, by an artificial prescription.

Thereby it had contributed to the further proliferation of financial and administrative arbitraryness, and rendered impossible to make any sound choice between exports and import substitution.

This finding was supported by the monograph of Sára Pásztor (1983) highlighting the intimate interrelationship of autarkic tendencies, inward-looking policies and the hierarchical structure of the economic system. She underscored the tendency to reproduce the senile patterns by virtue of the strong interdependence among the individual elements of a chain forming its subsystems. Thus one becomes the reason for the other in the next run, and partial reforms are derailed. In a likeminded monograph Csaba (1984) spoke of the dead alley of Comecon for Hungary in two planes. First, integrational arrangements were not to be improved owing to the nature of bureaucratic coordination. Second, the evolving crises remained covert and waked the illusion of stability, at a time, when seeds of irrevocable decay had already been sown, not least by the non-adjustment to the new trends in the world economy.

In a no less important debate the developmental role of foreign direct investment was discussed. Once regional seclusion is excluded, the question of dependency arises due to the intimate nature of multinational intracorporate division of labour. This become a particularly hot potatoe against the background of traditional marxist hostility to transnationals, as well as due to the dominant dependency school in the official academe. The discussion - as summarised in Krasznai and Laki (1982) and Krasznai (1983) rejected traditionalist fears and laid the foundations for a basically forthcoming public attitude to FDI, as elaborated with full vigour in the habilitation theses of Inotai (1990). This change in the general way of thinking proved quite relevant by the early 90s, turning Hungary into the only transforming country conducting a fully-fledged open door policy vis-á-vis FDI.

In turn, Hungary could opt for a transformation strategy where foreign savings help modernise the large industrial white elephants. Thereby it managed overcoming what a large part of the theoretical literature view as the sole major bottle-neck in transition to private capitalism: the lack of domestic savings that could finance privatisation. This also may partly explain why nonconventional privatisation techniques never enjoyed popularity among Hungarian economists, as the problem to be addressed by these was (rightly) seen as nonexistent under Hungarian conditions. Actually, the widespread crisis phenomena in 1978-88 helped overcome most of the misgivings against foreign capital, and convinced the vast majority of the profession of the exigency of such opening (or the lack of either national or regional seclusive alternatives).

This finding was reinforced by the increasingly futile attempts by the Hungarian authorities to rely on Comecon, rather than the West, in order to avoid the painful adjustment to new realities. This hopeless fight against realities had lead to, as Köves

(1984) convincingly established, an ever growing dependence on the stagnant, ossified Soviet markets, even more on the export side than on the side of import supplies. This mistaken policy not only wasted a decade, but made the inevitable adjustment and reorientation more costly than otherwise could have been.

It would have been surprising under the conditions of senile socialism, hadn't the ideological vigilance of the mid-80s not spilled over to the economics profession. In his inaugural speech as a member of the Academy of Sciences, a professor of the Party high school Hoch (1986) launched an all-out attack on the evolving mainstream of pro-opening, calling into question the entire rationale of this option. Here, and later in a monograph written together with his associate (Hoch and Radnóti, 1989) he called for an old-fashioned Keynesian growth-generating policy, based on seclusive trade policies. He was the first to attack as „monetarists" those who priorized market equilibrium and a policy of opening - a terminology later commonly used, without reference, at the other end of the political spectrum, i.e. by the populist Right.

Probably it was more the „Zeitgeist" than the intellectual substance which explained why these rather uninspiring ideas had triggered a stream of heated debate spread over more than two years on the imperative of opening. Space limits us to recall only two representative views, best formulated by the authors quoted below. A leading trade theorist, unsurprisingly also a decisive figure in the liberal camp, produced a wittily written critique (Nagy, 1986). Having surveyed the relevant international and Hungarian literature he pointed to Hoch´s ignorance of these and also more recent country evidence favouring export-led open door policies. Looking from today´s perspective, András Nagy could be called the first „shock therapist", three years before Jeffrey Sachs entered the East European scene. True, Nagy refrained from such ideas as the big leaps in institution building, so typical of true shock therapists.

The counterarguments were best advanced by Iván Szegvári (1988b). Also a trade theorist by training, this author rejected the pseudo-theoretical argumentation of Hoch, but he also contested the position of Nagy, blaming it for drawing immediate conclusions from rather abstract theories. He elaborated the view in which it's not the objective (of open economy) which really matters, but the way to get there. The latter is bound to be stepwise, via compromises. In this article Szegvári gave the full list of arguments favouring what two years later became known as a gradualist transition strategy.

By this time another multiyear research came to an end. As reflected in the summary article by Richter (1989) the survey of all forms through nations traded with the Soviet Union was conducive to a finding: only trade in convertible currencies is able to secure Russian supplies, and only this trade régime is compatible to a free market economy.

It is easy to see why autochtonious development in Hungarian theorising on systemic issues, coupled with the open crisis in the external Soviet empire could produce a breakthrough in the Hungarian trade régime by 1988/89. Already from January 1988 a cautious, but by no means marginal reform, eroding foreign trade monopoly, abolishing the separation of home and external markets and limiting discretion was underway (Náray, 1987). The CMEA session of October 1987 dispelled last hopes for its reform. After 32 years in office János Kádár was demoted in May 1988. Everything was in motion: theory and practice alike. A committee on opening up the economy was set up as integral part of the reform commission under two deputy PMs: Rezső Nyers and Péter Medgyessy.

Thereby everything changed suddenly, basically the power structure of the party-state and large firms, which explained why none of the reforms could really „work“ (Nagy, 1988). In a couple of months the majority view opted for a reorientation and radical opening strategy, as part and parcel of transition to a market without adjectives (Szamuely, ed., 1989; Köves, 1989). Calls for introducing `instant convertibility` were made and published, prior to the political change to multiparty democracy (Nagy, 1989). Following a thorough discussion the government initiated trade in convertible currency with Russia in March 1989, i.e. two years before the dissolution of Comecon (for a survey of the debate and circumstances of this decision see the best survey to date in Lányi, 1990). But over and above the theoretical deliberations, the system of trade control simply collapsed, rendering any proposition of a „gradualist“ opening immaterial (cf. Lányi and Szabó, eds., 1993). This circumstance seems to have gone under in that part of the Hungarian literature, which later joined Western „Besserwisserei“ blaming the unilateral and radical nature of opening up the Hungarian economy. In reality, the sustained policy of opening between 1989-92 proved to be one of the few hardly contestable options, at least from the theoretical point of view, against the background of six decades of economic seclusion. In fact, as contemporary analysis (Köves, 1991) pointed out, there was neither political nor economic justification for the halfway-house solutions, so strenuously cultivated by some international specialists. The logic of collapse superimposed itself on textbookish wisdoms.

4. Transition to Capitalism

Having seen the substantive features of reforms transcending socialism, it doesn’t come as a surprise that transition to capitalism in Hungary was smooth, both in the political and in the economic sphere. In many ways it were economic reforms which had gone political. The first such occasion was the much-quoted policy platform, Reform and Turn, originating in late 1986 (Antal et al., 1987). This was the time when the new vigilance of Party purists, busting the Writers Union, triggered the formation of the first two opposition proto-parties, which were, at this stage, partly still overlapping. Moreover, as the contemporary retrospective of Lengyel (1987) already documented, there was no stringent delineation between official reformers and samizdat oppositionals. On the contrary: as his insider recollection unfolds at great length, even later, when the schism between the „popular"/völkisch and urbanite opposition groups were already deep, each had their go betweens to the highest echelons of power (Lengyel, 1989). Thus the major conflicts emerged not between the reform socialist government and opposition, but between various tendencies within the opposition. Their differentiating feature was surely not a dissimilar vision of the economic stance of the Grósz and Németh governments, or even of the future economic course.

In concrete terms it meant that official, semiofficial and oppositional economic platforms were simultaneously elaborated, often by the very same personalities, or their closest collaborators. This ensured the lack of major twists and turns in the transition process, in other words, the sustainability of the overall line of market transformation. What made Reform and Turn different was its supplement III covering the societal aspects of reforms, and supplement IV calling for a thorough overhaul in the media (i.e. free speech). These fell typically outside the scope of narrowly economic reforms, but the substance of the latter was rather less than more radical than that of (semi) official reform projects. Its political message also reflected the „Zeitgeist" that had parallely surfaced in many other writings, partly already cited, to which we may add Bauer (1988), Bogár (1989), Lányi (1985), Szamuely (1987), Voszka (1990) and probably many others pinpointing the finalit, of crisis in various fields and from various viewpoints. The real breakthrough was reached by the autumn of 1988, when officialdom faced the sinking of the Soviet Titanic, and adopted a policy of fleeing it. This implied trade in convertible currencies, i.e. getting out of the institutional strait-jacket of the empire, and adoption of a reform model (Tézisek, 1988) emancipating private property, aiming at liberalisation of trade and of factor markets. In reforming the role of the government cessation of annual planning was envisaged, and the use of taxation for social policy purposes was to be discontinued by the introduction of a single rate VAT (Hetényi, 1988b). Fiscal reform projects also covered social security reforms. However, `Kádárism` lasted too long, and the outgoing governments were (rightly) feeling too fragile to address this explosive issue seriously.

The less bumpy road to enter was to take up and resolve problems where issuing new or modified legislation didn't trigger immediate resistance. This included a three year programme of gradual liberalisation, and above all, the corporation law and the transformation law, opening the gate wide to spontaneous privatisation. In this process impersonal public property had been turned into private hands, mostly by insiders, in a game where managers picked their owners in what was essentially an inverse (perverse?) principal - agent relationship. The process has proceeded much quicker than adversely effected social strata could mount effective resistance. The rationale of the process, as explained by Matolcsy (1990) went as follows: no privatisation can be successful against corporate management. In many ways they and the outgoing nomenklatura were the only agents able and willing to exert proprietary functions, combine factors, and restructure ailing companies. Decentralising losses and problems was an imminent task and there was no other player that could become an active agent in mastering it. This argument relied heavily on the Hayekian concept of decentral knowledge as a key element in societal development, while obviously serving the capitalisation of situation rents by the old élite.

On the other hand, corporate management, even of troublemakers, tried to get along on their own, stopped bargaining for public money, and were busy looking for various solutions, including divestment, chopping up their company and looking for Western strategic partners. This was only to be expected on the base of what was already known by the late 1980s (Lányi, 1988), i.e. Hungarian corporate bosses ceased to be clerks taking and transmitting commands. They had evolved into independent-minded, autonomous and very innovative business executives able to adopt into local conditions much of what Western business economics had to offer. Interestingly, public outcries against the process did lead to setting up the State Property Agency and the adoption of the law on the protection of public property in May 1990, the last days of the Németh government. However, the new Antall government was unable either to stop spontaneous privatisation, or to offer an alternative, or even elaborate its professional criticism.

The latter - as different from expressions of political distaste and moral disapproval - came rather from the „old liberal“ camp, blaming the reorganisations for not having produced actual private property (Móra, 1991), for not having created efficient means of corporate control, for the lack of risking the new owners` own property (Voszka, 1991), for the neglect for clear definition of proprietary rights as well as considerations of competition/contestable markets (Somogyi and Török, 1993). Although the Antall government aimed at more centralised control over the process and declared as its priority the creation of a national middle class by way of a variety of methods (A kormány, 1991), reality turned out to be different. As several analysts (Voszka, 1991; Mihályi, 1993) have demonstrated, the underlying spontaneity of the process, is sociological terms the persistent dominance of corporate management vis-à-vis any privatisation policies remained manifest all across the period of 1990-94. Various forms of preferential schemes invariably failed. ESOP-schemes and employee-management buyouts, conceived to impute a modicum of equity in the process, turned out to be covert forms of leveraged management buyouts, further strengthening managerial positions (Karsai and Wright, 1995). Various editions of a voucher programme not only failed to elicit electoral support for the centre-right, but encountered a chilly reception also by the profession having predicted its early demise (Major, 1994).

Various cross-country analyses therefore rightly pointed out this remarkeable stability as a peculiarity in Hungarian transformation, where spontaneously evolving ownership change remained predominant over all forms of social engineering, attempted by the government in the framework of its changing privatisation policies (Major, 1993; Mihályi, 1994). This was shown to be an inherent feature of transformation, as considerations of business are by definition at odds with any concern or concept of social engineering, built upon a vision of an ideal society (Tömpe, 1992). Whatever is our value judgement of this outcome, the way of ownership change has surely had a decisive imprint on the face of Hungarian capitalism.

A further circumstance having conditioned the soft landing in capitalism was the negotiated, gradual change in 1989-90. The reformist wing of the outgoing régime had rightly seen it as a medium-term investment if it plays an initiating role in orchestrating transition. This seemingly self-defeating policy established the moderate Left as a lasting and professional force in the pluralist power game, whereas it levelled the ground for a peaceful change of the guard. Therefore much of the institutional infrastructure of pluralism, including a Constitution guaranteeing private property and civic liberties were elaborated, and adopted on 23 Oct 1989 (i.e. on the anniversary of the 1956 revolution). Negotiated change, meanwhile, also meant a lack of massive cathartic feelings. The democratic government was lacking the emotional triumph cards when it faced transition difficulties. This was a problem, insofar as their heritage was a multidimensional crisis - of growth, of social model, of international cooperation and of value system (Kádár, 1990). But under the circumstances, and following the shocks of 1918, 1945 and 1956 Hungarian society was fed up with any sort of social engineering.[25] Retrospective surveys of the economic programme of democratic parties (Laki, 1991) as well as of professional controversies (Major, 1991) proved a remarkable consensus on this point, boiling down to the rejection of any radical proposition. The intertwining of official and unofficial advisers also had similar effect.

This explains the mixed reception of János Kornai`s new bestseller (1989), having produced a platform of radical stabilisation cum privatisation policies. The book summarised what we may call the mainstream of Western thinking on systemic change. It called for radical disinflation. In so doing, it contradicted to the official reform strategy, having stressed structural change first, foreign equilibria second, and taking a 15-20 per cent rate of inflation for normal (Berend, ed., 1990, 131-135 and 145-148). Following the vision of his earlier writings Kornai saw enterprise behaviour and corporate management quite unlike the microeconomic approaches surveyed above. Therefore he saw the active role of socialist entrepreneurs much more contentious an issue than the contemporary Hungarian professional mainstream. He was proved to be quite right by the outcome of 1990 elections.

Meanwhile some propositions of the book produced a widespread controversy, basically on the pages of the leading economic weekly Figyelő. Atypically for the Hungarian public life, a stream of critical reviews was produced, with most authors highlighting the differences of the Hungarian realities from the reformed socialist

[25] The satirical weekly in its first issue of 1990 produced a cartoon of a civilian, looking suspiciously at the plethora of emerging new politicians, asking them „When are you going to stop finally experimenting on us, plaese?“

model sketched in the Free Economy. Commentators noted: it was impossible to introduce a dual track regulation, separating public and private companies, as the corporate and transformation laws, as well as the growth of the non-state sectors made the dividing line between public companies, to be tightly controlled, and private ventures, to be set free, rather ambiguous. There was also widespread disagreement over the need to undertake a „stabilizatory operation“ as proposed by Kornai. All these criticism notwithstanding, the Free Economy was the first open platform of fully-fledged private capitalism[26] and a call to do away with bureaucratic coordination at a time, when most democratic parties were a long way from stating this point clearly, whereas the outgoing administration, understandably, took an agnostic stance, that of equality among all property forms.

Kornai`s strong antiinflationary stance („He who is for the market is against inflation“) was also swimming against the contemporary tide seeing inflation as either a smaller evil, or an inevitable side-effect of otherwise healthy changes. Typically for the time, besides Kornai, only Tibor Erdős (1989), normally considered as too abstract for policymakers, called into question the overall leniency on price hikes. He cautioned against the grave dangers in surpassing the 25 per cent level of „moderate inflation“. Contemporary editors favouring this point had to rely on a series of foreign contributors, owing to the weak „supply response“ from the Hungarian profession.

This state of affairs prompted Kornai (1990b) to update his manifesto. Taking stock of criticism he underscored the need for stabilisation cum reform, as well as the need to introduce all this in a single package (791-3).[27] He also reiterated his call to discontinue spontaneous privatisation and promote personal private property holding, rather than various forms of institutional and mixed forms of ownership.

While sharing the more abstract reasoning, as well as the objectives, of the Free Economy, the best experts of the outgoing administration (Antal, et al., 1990) rightly emphasized the crucial policy role of liberalisation and deregulation for the market order to evolve. Their other group (Vértes and Kardos, 1990) were rightly blaming the stalemate, due to ossified interest structures, for the lack of a breakthrough of a similar platform in 1987-89. But this situation has fundamentally changed by the collapse of the party-state in Hungary in 1989, and the subsequent collapse of the Soviet Union two years later. Precisely their intertwining with the old power structures left the most powerful lobbies vulnerable and allowed for a twin policy of liberalisation and stringent

[26] When the Hungarian edition appeared, the later governing party HDF still had its third-road Lakitelek Manifest as its platform; Smallholders called for reprivatisation, and the second largest party, the centre-left AFD campaigned on the self-management plus private property line, advocating municipal property, self-governance of the social security fund, and a welfare minimum extended to everybody.

[27] Normally, this is seen as the conditio sine qua non of shock therapy, and this was the (implicit) view of the contemporary profession in Hungary. Meanwhile, in a characteristic outbrust, Balcerowicz (1995, 195-200) singles out Kornai for proving the dangers inherent in an evolutionary (gradualist) approach. Both reactions show, in my view, how misperceived the entire gradualism versus shock therapy debate was.

monetary and fiscal stance to sustain. This happened amongst administrative and ideological chaos, conducted by a government, having adopted an outright dirigiste ideological stance (Csaba, 1992).

But at the time of the first democratically elected government`s accession to power the situation wasn't as clear as yet. The Democratic Forum - and on occasion, some other forces - adopted the slogan of social market economy, without being specific about it, even without having a clear conceptual clarification of this objective.[28] For the HDF it did not mean a primarily liberal philosophy and a priority of „Ordnungspolitik", but by and large, rejection of the idea of shock therapy and of American-type Wild-West capitalism. The need to rely on something prestigious and proven (i.e. marketable for a conservative electorate) had to do with the two front fight of the new Premier, József Antall. On the one hand he felt the need to dissociate himself from the policy recommendations of the Blue Ribbon Commission (Berend-Bollobás, et al., 1990), whose suggestions, starting from elected sheriffs to strong municipal administration, thus sounded much like the platform of the second strongest party, and his main contender, the AFD. On the other hand, he equally had to dissociate himself from the original third-road/market socialist platform of his own party's Lakitelek Manifesto of 1987, which was clearly out of date under the new conditions and unfit as a government platform. What he could have most relied on, the suggestions of the Bridge Group (HID, 1990) was not economic philosophy but sheer pragmatism, calls to continue basically liberal economic policies and to lauch reform of public finances as soon as possible.

All these theories have exerted a rather limited impact on policy-making. Formation of the government proved intricate and inconclusive, as no solid new majority emerged. Finally, a separate deal with the major opposition force enabled Antall to marginalise his more radical coalition partners, however at the cost of perpetuating infights within his own team, rendering any major policy reform next to impossible. The unfortunate attempt by finance minister Ferenc Rabár, a political newcomer, to abolish all subsidies at one stroke triggered the taxi drivers` blockade, the only major civic unrest ever since. This has taken place a mere five months after the formation of the new government. The lethal illness of the PM also became public at that time.

These circumstances were clearly hostile to social engineering of any sort, and convinced the government to step in the footprint of its predecessor. This happened by the adoption of a three year economic programme (Hároméves ... 1990) containing only a third of the original (August) subsidy cuts. The programme clearly rejected reprivatisation, the single issue of the governing smallholders, called for full liberalisation of wages and exports, and in an obscure language, basically postponed all

[28] Proving this point in a survey of contemporary literature Lányi (1996) shows the predominance of secondary accounts by outsiders over the original German theorists, as well as the strong political instrumentalisation of this concept.

measures that could cover, even in part, social security reforms. The ministry of finance project remained silent on the politically most explosive issues, like the Gabčikovo Dam, the world exhibition, ways to tackle poverty and massive unemployment, privatisation, writing off inherited debts of commercial banks (or alternative ways to consolidate banks)[29], restructuring the government itself and particularly its chaotic finances. Whereas contemporary critiques focussed on the quantitative forecasts, which were uncertain anyway, or approached it in purely political terms, Illés (1991) called attention to the lack of priorities, which was a heritage from the 80s. Interestingly, when the new finance minister Mihály Kupa, the founding father of the 1987 tax reform took over, under his auspices basically the same programme survived. The only meaningful difference was that in the final edition (Stabilizáció ... 1991) legislative measures aimed at institution building have come to the fore, whereas the quantitative aspect figured only in the supplement.

This change of emphasis was quite in line with Hungarian mainstream thinking, and was also right in view of major uncertainties underlying basic data, having rendered modelling an extremely high risk business. However, given the lasting intra-coalition stalemate, the new emphasis could not be translated into practice. The latter continued to be molded by muddling through and improvisation, which wasn’t really surprising. If one were to take the economic discourse of the political class and the contemporary daily press at face value (which would, of course, be misleading) one could describe this also as a policy of „Schadenbegrenzung“, of minimising losses, that could have occurred from, poorly thought out radical initiatives of various sorts. Contemporary observers, sympathetic to the difficulties, were rightly stressing the lack of strategy as a main deficiency: only such vision could have transformed the policy of muddling through into a truly gradualist stance (Mizsei, 1993). The latter would have meant a conceptually well established privatisation and market building strategy. Meanwhile it would have required giving up the purely politically motivated initiatives in nonconventional economics, as the artificial lowering the rate of interest, restitution, the world exhibition project, debtor consolidation (bailout of large industrial firms) and reorganisation programmes, all originating in the parliamentary caucus or in the various (semi)official `expert` groups. Worst of it was, of course, the artificial growth acceleration drive (Vértes, 1992), which laid behind the arbitrary interest rate policies of the Bank in 1991-93, and translated into 8 bn $ current account deficit in 1993-94 (against merchandise exports of 8.1 and 10.1 bn $, respectively).

It is interesting to observe the ongoing decoupling of professional debates from political polarisation. This produced a fairly unique situation for Hungary, where political groups and economic schools hardly overlap. This feature has become

[29] In terms of economic theory it was probably, the most severe, and most costly omission. As the survey of Várhegyi (1995a) explains, commercial banks lost their starting capital by 1993, and their bailout was costly, improvised and wasteful, burdened with moral hazard. Conditions for businesslike behaviour and competition for clients thus failed to meterialise.

manifest since the July 1994 formation of the centre-left government. The latter`s backbone, the Socialists adopted a basically neoliberal stance in line with OECD practices. Meanwhile, not only the populist, but also the moderate Right continue to go out their ways to protect the remnants of the socialist welfare state.[30]

This incongruity surely counts among the peculiarities of the Hungarian intellectual landscape. But it is remarkeable, that a multiauthor volume, giving a cross-professional overview of how Hungarian economists viewed the transition phase of 1988-92 (Székely and Newbery, eds., 1993), still testified about a „Grundkonsens" in all major issues. The true - new - differences emerged not in seeing this, but in the subsequent phase, when such questions emerged as to what capitalism, through what way, at what price? This will be the subject of the following chapter of this study. The general professional agreement was reflected in public opinion`s wide approval of instituting central bank independence in 1990, of introducing West European accounting practices both at macro and microlevels in 1992, of the forthcoming attitude to FDI, of privatisation to be run `British style` rather than via populist free distribution schemes, and last but not least, on trade reorientation and Hungary`s accession to the EU (with the official application handed in April, 1994).

No serious analyst has ever questioned the substance of any of these steps. Those sounding critical voices disagree with particular techniques, timing or coordination among these measures, rather than with their overall rationale. This reflects, after all, a remarkeable consensus in a country where political groups hardly agree upon anything except the national anthem and maintenance of a pluralist system (based on free elections and private property). The accession of Hungary to the OECD in March 1996 was an external reassurance of Hungary`s having crossed the threshold of transition phase between socialism and capitalism. It is therefore unsurprising, if the more difficult questions of what capitalism` have come to the fore. This gave birth to and rebirth of schools of thought typical of established democracies.

5. Which Capitalism? The (Re) birth of Currents in Economics

It would be quite absurd to conclude this survey with offering one particular vision of the target model as derived from and substantiated by Science. Following the collapse of the „only scientific worldview" all what we can present is a sketch of approaches and currents having emerged from historic development as well as from interaction with the international community. As any survey of contemporary output, this one may well look arbitrary to some, and not everybody will rejoice seeing himself grouped with

[30] In 1993 and 1995 Smallholders collected over 100 thousand votes to get a plebiscite on obliging the state to secure a first flat for newly-weds. In 1996 Christian Democrats did the same in protest against planned increases in retirement age and cuts in family allowances, previously granted an entitlements. Both moves were finally overruled by Parliament.

particular persons. Some areas will undoubtedly feel underrepresented if only due to limitations of space and of subject, as delineated in the Introduction. Similar attempts, with a due historic perspective, will serve right to each and correct the errors inherent in any first run. For brevity's sake we shall group and label authors as it corresponds, by and large, to Western parlance and conventions, and shall avoid semantic debates on the vices and virtues of the latter, thus shall disregard self-categorization of the authors themselves.

The nature of the transitory phase was such, that the maxims of the neoliberalism couldn't but dominate the scene. With the time passing, an ever growing number of authors started to ask about the price to be paid for the free economy in terms of output, employment and human conditions in general (see e.g. most recently Szamuely, 1996a). Obviously under the strong influence of the Economic Commission of Europe, analyses assessing transition costs as too high were elaborated. Consequently, calls for an anticrisis, growth-generating policy, laying more emphasis on the social component of change have emerged. And this is, at least in immediate policy terms, what Keynesianism has been all about. Of course, this line of thought, in view of its decades-long experience, developed in two main directions. Whereas the more orthodox version is still in favour of expansionary governmental policies and controls, the modern version takes stock of the multitude of dangers inherent in inflationary policies.

Old-fashioned Keynesianism didn't need to be reinvested, since this current has always been around, as our quoting the Hoch and Radnóti (1989) book already illustrated. Riding on the tide of dissatisfaction, the impressive public speaker Kopátsy (1992) was the first to launch an all-out attack on `idolizing` antiinflationary concerns at the cost of everything else. In another article (1993) he blamed the entire mistaken concept of `monetarism` for what he considered as a dead alley for the Hungarian economy. Others also advocated expansionary policies on theoretical grounds as the right way to get out of `depression` (Mandel and Szombathelyi, 1995). Yet others advocate tax and rate cuts, market protection and the positive stimulation of domestic markets to generate more growth and income (Matolcsy and Kopátsy, 1995). Still others draw attention to a general 20th century experience proving the inefficiency of free marketeer policies on the peripheries of the world economy (Berend, 1995).

This line of thought is joined by an influental segment of agricultural economics. Romány (1992) went as far as calling for a specific Hungarian way asking, if this was possible under the Soviet empire, why shouldn't it be feasible against the EU? Still others highlighted the inherent constraints to introducing a predominantly private farming under Hungarian conditions and called for support to corporatized large coops and state farms (Varga, Gy. 1993). He highlighted: the rural population can`t relaunch private farming unless massive state aids are granted.

The more modern version of Keynesianism appreciates the grave dangers of fiscal overspending and of sustaining inflation. It tries to integrate deficit cuts to the objective of avoiding a credit crunch (Erdős, 1992), appreciates the existence of crowding out, as an objective phenomenon dangerous to any recovery (Erdős, 1993, 18-22.), and underlines: fiscal expansion, on its own, is counterproductive; it is the rate of investments which need to be augmented (Erdős, 1994). The middle of the road position also means adherence to Keynesian principles, why giving way to concerns of fiscal equilibria (Veress, ed., 1993).

A milestone of the revival of this approach was the monograph of Köves (1992) highlighting the loss of output and employment as the single most important feature (and also a crisis sign) of economic transformation regionwide. This approach developed into tolerating selective discretionary and administrative tools as anti-depression means (Köves, 1994, 15-6) and the rejection of the aspiration to remodel the welfare state over and above inevitable fiscal corrections (Köves, 1995, 41-3; Augusztinovics, 1996). Interestingly, in a retrospective analyses, justifying the artificial interest rate cuts of 1991-93, the former governor of the central bank came to a similar conclusion in a rightist conservative monthly (Bod, 1995), which illustrates our earlier point of incongruence between economic and political affiliations.[31] This line of thought rejects the concept of twin deficits, and finds therefore unjustified to curtail domestic consumption in order to improve the current account (Oblath, 1995).

The neoliberal camp in Hungary is certainly more institutionalist than monetarist, which would sound as odd in Britain or in the United States. But this orientation has to do with the nature of transformation, which is, to a great extent, about institution building. In so doing Kornai (1992) was among the first in the international transition debate who called attention to the time dimension of the change, normally underestimated by the early radical approaches as well as by orthodox neoclassicals. He was the first to draw the conclusion on the inevitability of lasting fiscal deficits in the course of transformations,[32] as expenditure cuts were imminent, whereas the recovery of governmental revenue is also certingent upon recovery of economic activity, which did take time. One of the structural reasons for the reproduction of deficits is the early-born/overextended welfare state, which bears no relation to actual economic performance in postsocialist countries.

Addressing the problem of recession this approach stresses dissimilarities of the fall of output in the post-Soviet era from cyclical slumps and even depressions in the West. In an influential article Kornai (1993) listed a series of factors having conditioned a

[31] The earlier quoted Matolcsy, too, would be hard to be jammed into any leftist movement, as former secretary of State in Premier Antall`s office.

[32] This stance does not attribute a stabilizatory function to fiscal deficits, neither does it condone any measure of governmental overspending, even less does it provoke a laxity on urgent institutional reforms or spending cuts.

transformational recession which is partly structural, partly due to hardening the budget constraints and reorientation, as well as to market exits. In other words, these all reflect fundamentally healthy processes rather than a crisis.

The neoliberal camp, understandely, conducted an all-out war on the centralisation tendencies emerging under various governments in the name of a variety of ideologies. In a critical book Sárközy (1994) contrasted the surface of legal form, having approximated to EU standards, with legislative practice and also sectoral regulations of various sorts, which reflect bureaucratic narrow-mindedness. Lányi (1995) also criticised the lack of deregulation both as a theoretical guideline and a policy issue, as overregulation lames enterpreneurship more than taxation or recession. Attempts by the government to centralise control over privatisation was compared to planning, and to state property holding company to the old planning bureaucracy (Karsai, G. 1993). Others ridiculed initiatives to orchestrate industrial policies as attempts by a super-fluous bureaucracy to regain its lost raison d`être (Csillag, 1992). In a very successful monograph, Éva Voszka (1995) described the political and bureaucratic foot-dragging that evolved in the privatisation agencies in their fight against financial organs and sectoral ministries, aggravated by their internal divisions. By contrast, as Judit Karsai (1994) explains, industrial reorganisation programmes were thinly veiled attempts by the bureaucracy and management of ailing firms to postpone privatisation and later avoid it altogether.

In a similar vein, while officials even retroactively justify ways and means of bank consolidation, i.e. a centralised bailout operation on grounds that are familiar from international banking literature (Balassa, 1996), the neo-liberal camp remains very critical of the moral hazard, of bureaucratic arbitraryess and the very lavish use of taxpayers` (in larger part, `future governations`) money in saving on open fiscal commitments (Király, 1994; Köbli, 1994). They, as well as Várhegyi (1995a) criticise the sustaining lack of businesslike behaviour and miss competition, a circumstance they blame for the malfunctions. Meanwhile the official view justifies interventions on grounds of overall bank safety and protecting savings of the population.

Interestingly, following the change of government in 1994 the neoliberal camp remained in professional opposition, i.e. in disagreement with the style and substance of governmental practices. The government was criticised for acting bureaucratically, in the atmosphere of favouritism and campaign, rather then let privatisation evolve following the business considerations and ensure transparency (Csillag, 1995). Paradoxically, the great Christmas sale of 1995 only reinforced the validity of this point.

Official reform endeavours have highlighted the need to centralise public finances, which implied taking back most freedoms devolved to lower level institutions of civil service in 1980-86 (PM, 1994) by setting up the Treasury Office.[33] Meanwhile, the neoliberal camp sounded alarm (Egri, 1995; Várhegyi, 1995b) cautioning against recreating the omnipotent fiscal bureaucracy of the 1970s. Two more subject figure high on the neoliberal agenda. First, attempts are made to build a bridge to the mainstream and operationalise its findings into Hungarian conditions. The monograph of Pete (1996) is the first comprehensive attempt to perform this function at the level of economic theory, while Csaba (1995b) is a similar attempt to interpret the OECD/Washington consensus at the level of theory of economic policy.

Second, as fiscal reforms greatly overlays with social security reform and the concomitant rewriting of the social contract, this long postponed issue came to the for. The monograph of László (1994) addresses this point basically from the organisational perspective. He follows a logic of fiscal streamlining, and calls for a much smaller but vastly more efficient public sector in providing welfare services. Reacting on the hysterically rejective public mood, triggered by the first such attempts, Kornai published two major articles on this issue. In one (1996) he discusses fiscal cuts in terms of paternalism versus growing freedom of choice, a point that has completely gone under in public perceptions. In a related, more comprehensive account (1995/96) he asks about the limits to consensual change in a myopic society. The piece quite bluntly states some of the practical tradeoffs that are hard to reconcile within a liberal worldview anyway. Presenting a more formal (standard Western) way of argumentation Csontos (1995) calls into attention the fiscal illusions misleading the public in more egalitarian systems, where implicit costs/debts as well as future burdens remain regularly covert and systematically underestimated. This awakes a public misperception viewing reforms, bringing these choices/tradeoffs open, as a frontal attack on remnants of social justice.[34]

There are yet other trends of thought which do not fit easily to the conventional dichotomy. The libertinian „group“ consists of analysts distancing themselves from both „established“ trends from a point of strong anti-etatism while emphasising human/civic concerns. The `school` consists of individuals normally not very intensively interchanging with, or even reflecting on, one another. Bródy (1992) was probably the first to revolt against the property myth, as having lead to centralised procedures, and his (1994) article declared a crusade on the modernisation monopoly of the state. This approach has had at least a decade old prehistory with (Bródy, 1986) blaming oversize defense expenditures for basically all economic (structural, strategic and systemic) distortions in the post-1929 period. In a sophisticated article Lányi (1994/95) blamed transformation to have given in to the predominant concerns of globalised financial markets, while neglecting the ongoing marginalisation suffered by

[33] This actually materialised from 1 January 1996, although, for the time being, in a much softer form, than envisaged by PM (1994), e.g. municipalities are not under the TO.

[34] A transition theorist could well ask, whether the timing of such reforms to a year, when real wages dropped by 12 (!) per cent, comparable only to 1951, was really optimal.

the majority of mankind, and putting up with the disregard for basic human concerns (as production, sale, consumption, dwelling). For his part, Kovács (1994) blamed the neoliberal camp of hidden authoritarian tendencies precisely because of its institutionalist leanings.

Though its level of abstraction leads it outside the scope of the present analysis, mention should be made of the strong Hungarian mainstream,[35] presenting its output chiefly in international journals, besides Szigma (in Hungarian) and Economic Systems Research (a Carfax publication, edited by A. Bródy)˘ . This line of analysis is understandably strong in the exchange rate thory (Halpern, 1989; Halpern and Wyplosz, 1995), in modelling the pension system (Simonovits, 1994) as well as in the stabilisation theory (Valentiny, 1992 and 1995; Halpern, 1991), to name but a few of the policy relevant subjects. Findings of the formalised approaches are understandably often at odds with those of the more intuitive and down-to-earth neoliberal camp, where philosophycally most of the mainstream contributors would belong. This school is quickly growing by the involvement of the youngest generations, having had their basic training in this direction. While this survey is extremely selective, the relatively old quotations also indicate: Hungarian mathematical economics has developed organic relations to the mainstream well before political changes occurred.

Mention should be made of transformation studies, which are not at all as numerous as one could have expected from a pioneering reform country. This has to do with the severe bloodletting of the profession: prime politics, the state administration, foreign academic positions and even business distracted people who could, in theory, have contributed.[36] Many of the relevant output was already quoted in one way or another. The survey of Szamuely (1992) highlighted the difficulty of giving birth to a new area, and foreshadowed the dilemmas of future, which, indeed, have become the watershed between various professional schools.

Kádár (1994) highlighted the need for redefinition of the role of the state from the perspective of internationalisation, growth promotion and organising the catch-up potential. Greskovits (1993 and 1995) made pioneering work in the light of new comparative political economy, trying to understand the interaction of economic and policy factors in ensuring social acceptance of radical marketeer reforms. He highlighted the limits to spontaneous protests and wild social explosions in countries where tripartite coordination of interest, parliamentarism, the rule of law and media formation of public perceptions support governmental compensation of the worst losers. Finally the book of Csaba (1995) singles out financial intermediation and competition, rather than the property and the growth issue as the backbone of systemic

[35] At the time of finalising this manuscript, Közgadasági Szemle has published three highlevel summary analyses of this area, by Simonovits (1996), Nagy (1996) and Kőrösi (1996).

[36] S. Balázsy e.g. is the leading executive of Ganz Villamos Müvek, a large electronics firm, L. Asztalos is heading the State Insurance Inspectorate, and many other entries from our references may be added.

change. His book is a pladoyer for the gradual withering away or this special area as the fundamental qualities of market order will crystallize. He also calls for a better application of available standard economics on the specific Eastern field, than was the case in the `first generation` transitology.

Finally mention should be made of agricultural economics and foreign trade studies, two specialised areas that don`t really fit into our categories of „schools“. Still, these have produced interesting insights into the nature of economic change in Hungary. The book of Csáki and Rabár (1990, 210-240) was the first comprehensive analysis calling for a rethinking of the previous strategies based on fostering the volume of sales abroad. They highlighted the market limits to this approach why calling for an ecologically oriented, quality-sensitive policy. Sipos and Halmai (1993) made a strong case against simplistic approaches blaming both command and free marketeer dogmatism for neglecting salient features of the area. In a similar vein, Lányi and Fertö (1993) cautioned against overplaying the property issue in this area, as societal vision, cultural considerations, regional concerns and respect for social stability also play a role in making public choices. Finally the textbook of Halmai (1996) offers a survey of the type of radical changes this area is to undergo in the course of Hungarian accession to the EU.

This brings us to the foreign trade area, where many new issues emerge under the new perspective of EU accession. Not attempting the impossible, we constrain ourselves to mention the programmatic article of Inotai (1995) on the offensive, and the monograph of Török (1996) on the defensive side. The comprehensive monograph of Balázs (1996) is an attempt to integrate both sides. The joint article by Inotai and Palánkai (1994) offers an insight into the outcomes of a multiauthor multiyear analysis, serving as a backbone to the left-liberal government`s accession strategy - maybe, raising too high expectations in terms of what the EU is up to for integrating Central Europe.[37]

6. Conclusions and Prospects

This bird’s eye view on the currents and subjects is far from being exhaustive. We consciously omitted methodological studies, nonconventional approaches (as on the very long cycles) and border areas, besides sectoral economics. What we hoped to convey was a message of the manifest diversity of both approaches and interests. Plurality in both areas can probably be taken as the best indicator of return to European normalcy. As seen from the survey of individual areas, traditional eclecticism is still strongly present. The emergence of formalised approaches, as well as the crystallisation in the schools of thought will certainly exert a disciplining influence and diminish this feature. Immediate influences of international trends are hard to establish except for the

[37] One of this points is their call for massive pre-accision financial transfers to assist a smoother preparation to EU membereship; another is the erection of transitory protectionist barriers before full membership (a move excluded by the present Europe Agreements.

by definition international formalised areas. However, with the transition phase over, the type of reforms yet to be undertaken, in areas like social security or farming, the similar nature of problems to be solved will surely enhance the direct interaction with economics and economic policies of OECD countries. Thus a further approximation to this „normalcy“ will be a salient feature in the long-term intellectual development of the years to come, at the expense of esoteric and „alternative“ approaches. The latter, will surely encounter a revival in those postsocialist countries where transformation has widely been seen as a major debacle and an unnecessary nuisance by the majority of the public - and of the profession alike.

Meanwhile, the specific features will hardly disappear from the whole of Hungarian economics. The presence of a strong empirical-sociological approach in micro-economics and surveys of enterprise behaviour will surely be one of those features. Given the limits to agricultural protection - owing to new WTO rules and financial constraints - agricultural economics will probably be more inclined to free market ideas, than in most of the EU outside the U.K. The article of Fertő (1996), questioning the validity of most „theoretical“ arguments invoked for protecting farming as a special activity is a first sign of this trend. As empirical surveys have already evidenced a gradual breakthrough of market conforming behaviour in the traditionally overregulated food industry (Mohácsi, 1996), this time theory and practice may well go hand in hand.

Neo-institutionalism will hardly give way to pure forms of neoclassical or monetarist approaches. If for no other reasons, because of a decade-long process of adopting the acquis communautaire as well as the upbringing and personal interest of the older and middle aged opinion-molders will vouch warranty for this phenomenon to last. The growing distance between policymakers` and theorist`s view of the economy will surely continue to seduce leading academics to policy relevant issues and analyses of policy failures, just as much as one can observe this in The Economic Journal, The American Economic Review or The Journal of Economic Perspectives. Following the fiscal reforms, the Hungarian academe will also not be affluent enough to afford the aristocratism of pure theories, currently dominating the leading economics departments of the globe. But, after all, is it going to be a great disadvantage to the country and to the discipline? Only time will tell it.

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