

limited knowledge, and as a means to reward (and punish) economic behavior. The coordinating mechanism of market socialism is a hybrid of markets and planning--they are not viewed as mutually exclusive. Instead, the primary question concerns the weight each should be given.

CHAPTER THREE: POSSIBILITIES AND LIMITS

The political analogue of the socialist hope that culture can in the end dominate structure and human values govern the organization of production is the hope that this dominance can be secured through the construction and sustaining of a political culture of mutual credibility and goodwill. The charade of belief can be mustered by any capably repressive political order. But the actuality of belief has to be fought for and won incessantly.(1)

Promoting the development of market socialism is more than an economic, technical or administrative problem.(2) Changes in economic structures are not sufficient in creating market socialism (or, as this essay has argued, capitalism) because an external economic structure is not the only factor which affects human behavior. There are economic reasons for believing market socialism is a possibility in Hungary, but what are the political, social, and cultural characteristics which can also support this proposition? This chapter will consider social and political possibilities and limits to promoting market socialism in Hungary.

I. POLITICAL POSSIBILITIES

The Hungarian Roundtable negotiations, which started 1989 June 13, led to free elections and a parliamentary political system within a year. Bruszt and Stark note that "Unlike the strong presidencies that have highjacked transitions from authoritarianism elsewhere in the world, Hungary now has a governmental structure with a weak presidency and a strong Parliament." (3) The different political structures which evolved, for example, in Hungary and Poland were due primarily to differences in the strength and nature of the political oppositions: respectively, a weak and strong opposition. The opposition movement in Poland--Solidarity--was viewed as a legitimate voice for the Polish people by the Polish people. (4) In Hungary, as Bruszt and Stark write, the opposition "With their organizational membership still numbering only in the thousands, and with their strength in society still untested, they could neither make an undisputed claim to speak in the name of society nor anticipate the capacity to call on society to agree to a compromise." (5) The principle that unified the Hungarian opposition at the Roundtable

negotiations was the need to hold free elections to legitimize political power.(6) The Opposition Round Table (EKA) argued,

There is no legitimate power in Hungary today. Until legitimate authority is created through fully contested free elections, no organization--including those in the opposition--has the right to decide the nation's future political and economic institutions.(7)

Generally Hungarian Communists also supported free and uncontested elections because they believed that it was possible to gain enough electoral support to maintain political power.(8) Public opinion surveys published in May 1989 indicated that,

. . . if elections were to be held immediately, the communists would win a decisive plurality of the votes The surveys also indicated that the opposition parties would be hard pressed to field candidates for national office. A majority of respondents did not recognize the names of the opposition's leaders, whereas Pozsgay, Nemeth and others [Communist leaders] were not only widely recognized, but also growing in popularity.(9)

Given the general uncertainty in Hungary and the lack of any one strong political group, all political groups saw it as potentially beneficial to allow free elections.

One area of initial disagreement between the EKA and the Communists was over the role and powers of the President and the Presidential office.(10) Hungary, unlike Poland, did not have strong, recognizable opposition leaders. Indeed, as the above quote emphasizes, individual Hungarian Communist leaders were popular at this time. The first agreement, signed 1989 September 18, would have created a strong Parliament and allowed the office of President to be elected directly, with the first elections to be held in November 1989.(11) Early and direct presidential elections benefited the Communists since their leaders enjoyed popular support and a quick election would have prevented the opposition from gaining much force or momentum. This first agreement, however, was challenged by FIDESZ and SZDSZ who portrayed it as a "deal" which failed to threaten seriously Communist power.(12) FIDESZ and SZDSZ were able to force a referendum on the presidential clause, which they narrowly won.(13)

Because of the delay caused by the referendum, elections were not held until the spring of 1990. During this time the opposition took full advantage of anti-

Communist rhetoric. Although economic crisis characterized Hungary, it was not a prominent issue during the 1990 election. Instead, the first free parliamentary election in Hungary was dominated by anti-Communist rhetoric.(14) Anticommunism and the lack of economic debate were not unrelated features. As Comisso points out, "Since class-based appeals were, literally, out of order, the basic economic issues invariably raised by conflicting class interests never became politically central."(15) "Class-based appeals" connoted "Communism", and hence were avoided.

Politically, uncertainty and a weak opposition in Hungary led to a relatively strong consensus for the need to have free and open elections. The political transition from a one-party state to a competitive party system occurred relatively rapidly and painlessly in Hungary: hence, the "silent" revolution. Bruszt and Stark argue, "With only a few exceptions, the new political elite in Hungary is one with a high degree of agreement about the formal and informal rules of the game."(16) Hungary has established an open, decentralized, competitive political system, a necessary condition for economic decentralization and

reform. Institutionally, the political framework established in Hungary in 1989-1990 is not incompatible with market socialism, nor is the problem a lack of political debate on an alternative development model. Currently in Hungary, as will be developed, major obstacles to market socialism, and greater reform generally, are the weak ties between civil society and Hungary's new political parties, and political apathy (lack of "public" debate).

II. POLITICAL PARTIES IN HUNGARY

Politics in Hungary can best be described as fluid and, as Kovacs notes, attempts to discuss Hungary's future are "a sort of intellectual masochism." (17) Yet, a brief sketch does demonstrate that a Western-style market is not as widely desired as rhetoric in the West would indicate. The predominant values and ideas of the various Hungarian political parties suggest that "social democratic" rather than "classical liberal" best describe Hungarian political attitudes.

The first free Hungarian elections, held in the spring

of 1990, led to a coalition government comprised of the Hungarian Democratic Forum (MDF), the Christian Democratic People's Party (KDNP), and the Independent Smallholders' Party (FKGP). The opposition is dominated by Free Democrats (SZDSZ) and the Young Democrats Alliance (FIDESZ). The Hungarian Socialist Workers' Party (MSzMP) split in 1989 with the "orthodox" Communists establishing a new party with the same name, and the "reformers" creating the Hungarian Socialist Party (MSZP). These two parties were soundly defeated in the election with the MSZP receiving about ten percent of the vote.(18) The defeat of the "left" in Hungary can largely be explained by the general negative feelings or even hostility towards the old Communist parties, rather than a radical shift in the ideological orientation of Hungarians. Laki notes,

No doubt, the majority voted for dirigist programs but, at the same time, liberal economic thinking also has strong support in Hungary. More interesting is that a lot of people refused leftist-dirigist programs and voted for centrist (conservative)-dirigist programs. In other words, the non-economic distinction between left and right proved more important than the economic philosophies of the parties.(19)

The first election in Hungary can be characterized as a negative--"no to Communism"--vote.

Andras Bozoki breaks down Hungarian political trends, shown in the following table, giving an overview of the ideological orientation of the many Hungarian parties.(20)

TABLE ONE: Political trends in Hungary.

TRENDS	LEFTIST CON-SERVATIVES	CONFORMIST TECHNOCRATS PRAGMATISTS	DEMOCRATIC SOCIALISTS, REFORM COMMUNISTS	RADICAL-LIBERALS
VALUES	Bolshevik-Stalinist	value-neutral	Socialist democracy	Welfare state
ISSUES	one-party system	democratic centralism	limited multiparty system	multi-party system
	order vs anarchy	party unity	socialization of institutions	representative democracy
	COMECON autarchy	power maintenance	local self-government	social policy
	centralized planned economy	stability	socialist mixed econ	mixed econ
	cells in the structure of employment	----	"ideal" (non-statist) socialism	----
ORGANIZATIONS	MSzMP	Hungarian Socialist Party (MSzMP)	MSZP	SZDSZ
	----	----	Union for Leftist	FIDESZ

TABLE ONE: Political trends in Hungary, continued

	-----	-----	Alternative (BAL)	Hungarian October Party (MOP)
			Democratic Youth Alliance (DEMISZ)	
			-----	Independent Smallholders' Party (FKGP)
SOCIAL BASES	older party apparatchiks	bureaucracy	younger generation MSZMP	urban middle class
	-----	some former MSZMP members	intellectuals	working strata
TRENDS CONT.	SOCIAL DEMOCRATS	DEMOCRATIC POPULISTS	POPULIST CONSERVATIVES	
VALUES	civil liberties	"Third-Way"	National identity	
ISSUES	multiparty system	multiparty system	romantic concept of nation and community	
	representative democracy	self-governments	society as a moral phenomenon	
	social minorities	direct democracy	collective rights	
	human rights	Hungarian minorities	Hungarian minorities	

 TABLE ONE: Political trends in Hungary, continued

ISSUES	social policy		traditions
	mixed econ	mixed econ	organic improvement
	free ventures	local communities (Garden Hungary)	"God-Family-Nation"
ORGANI- ZATIONS	Young Social Democrats (SZIM)	MDF	MDF-right wing
	Hungarian Social Democratic Party (MSZDP)	Hungarian People's Party (MNF)	Party for Independence (MFP)
	FIDESZ-SZDSZ left-wing	-----	Christian Democratic People's Party (KDNP)
SOCIAL BASES	urban intellectuals	countryside intellectuals	non-urban
	students	middle class	----
	private entrepreneurs	private entrepreneurs	

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SOURCE: Andras Bozoki, 1990.

The first impression that this table leaves is that it is difficult to distinguish between the various Hungarian political parties. Economically, the "radical-liberal" group (the extreme right in Hungary) advocates a welfare state. The "left" does not have a future in Hungarian politics. The policies of the leftist conservatives are

anachronistic, while the reform communists are tainted simply by their past association. The "value-neutral" technocrats are currently limited as a political power; but their positions and training leave them in an advantageous position to gain from economic reform.(21) The other political parties generally appear to have similar programs and concerns. Bozoki attempts to separate political trends using a "Western" left to right economic-political spectrum. Such a spectrum, however, may not be the best way to attempt to visualize political differences in Eastern Europe or Hungary. Comisso writes,

In contrast [to a Western political spectrum], the post-socialist political spectrum is structured along gemeinschaft-gesellschaft lines, with parties proclaiming a return to traditional, national communitarian values facing off against parties proposing more individualistic and Western models of development.(22)

Western conceptions of what it means to be a "liberal", for instance, do not work well in delineating Hungarian political parties.

One reason for the blurred distinction between Hungarian political parties is in fact the similarities in their economic policies. Laki argues,

The programs of the new independent organisations are, in many respects, similar to one another. They draw primarily on the concepts of Hungarian radical reformers in the 1980s Almost all opposition organisations draw heavily on the traditions of Keynes, or more concretely, on those of Social Democratic ideas.(23)

All the parties listed above see a central role for the state in providing and developing infrastructures (including educational and cultural), and in promoting research and development.(24) Further, environmental protection has become a prominent issue in Hungary and cleanup necessitates state action.(25) Political party attitudes in Hungary toward state intervention are ambiguous, even contradictory. Laki, for instance, writes "The distrust of the healing effects of the market has even penetrated the consciously liberal program of the Free Democrats' [SZDSZ] 'Program for Changing the Political System.'"(26) The MDF, in fact, promotes a gradualist, nationally-oriented development policy ("Garden Hungary"), and rejects a liberal international integration strategy. Laki refers to this general market skepticism in Hungary as the "Survival of planning illusions--[or] instinctive distrust of the market."(27)

The current Hungarian coalition government, using Bozoki's framework, is a mix of Democratic Populists, Populist Conservatives, and Radical-Liberals. The attitude of these three governing parties (MDF, KDNP, and FKGP) towards privatization is not hostile; but neither do they promote "rapid" privatization. The MDF and KDNP both share the view that "Privatization should only be implemented in a careful, deliberate manner, in areas where it will benefit the whole economy." (28) The FKGP favours the privatization of land and it is the only party to argue seriously for restoration and restitution of private property. (29) The Young Democrats (FIDESZ) and Free Democrats (SZDSZ) are the strongest proponents of rapid privatization, yet they recognize that "capital from both Hungarian private persons and foreign investors could purchase only twenty to thirty percent of the state-owned companies' assets over the next few years." (30) Most political parties in Hungary seem to favour slower privatization--even if for practical rather than ideological reasons.

One important difference between the various parties in Hungary concerns "who" should be the primary owners of

property. Both the MDF and KDNP favour employee ownership (purchase of stock by workers)--or, dispersed ownership patterns.(31) SZDSZ and FIDESZ promote greater institutional ownership, primarily because this is a more rapid way to privatize.(32) All parties in Hungary have raised concerns about underselling state-owned assets to foreign capital.(33) Direct foreign investment, not the sale of state-owned enterprises, seems to be the preferred policy option. As was discussed, government control and direction of privatization will require renationalization, and gradualism will be necessary to avoid foreign capital domination. How Hungary's privatization policy will evolve is yet to be seen.

Interestingly, it is SZDSZ and FIDESZ who argue that a wide social safety net is needed.(34) Laki argues that two kinds of welfare policies are advocated in Hungary because there are two different attitudes regarding the future: optimistic and pessimistic.(35) The optimistic groups include the "centrist" parties (MDF, KDNP, KFGP), and they do not see social aid as a primary issue because they believe that the economic crisis will be relatively short-

lived, while SZDSZ and FIDESZ believe that the crisis is much deeper and requires more radical, immediate reform (which would entail greater reliance on the market, not the state) than that proposed by the centrist parties.(36) The centrist parties do not view a wide social-welfare program as necessary because their strategy is gradualist and will induce, they believe, "small" social costs. Unfortunately, even a gradualist strategy will probably involve more than minimal social costs, and the current social safety net in Hungary is likely to be inadequate.(37)

The "Democratic Populists" (or the "Third Way" trend) do not consider themselves to be market socialists.(38) The Democratic Populists reject planning, capitalism, and reliance on foreign capital. Domestic accumulation, through policies that favour and encourage the development of Hungarian-owned small and medium sized firms, is the third-way priority. Further, they do not reject a role for the state or public sector. Despite the refusal to declare themselves "market socialists", the left wing of the Democratic Populists, in particular, advocates an economic structure not radically different from that outlined in

Chapter Two.(39) This refusal to be thought of as market "socialists" is largely related to the negative feelings that the term or word socialism activates. It is somewhat superficial, however, to view this as strictly semantics. Kornai, for instance, supports a controlled marketization process and recognizes the need to promote Hungarian embourgeoisement.(40) Yet, Kornai does not view this as market socialism and firmly believes that market socialism would fail if attempted.(41) Many, like Kornai, believe that market socialism had been given a chance in Hungary, it proved unviable, and now a more "liberal-oriented" marketization strategy is required.(42) Although the past failure of economic reform in Hungary has led to skepticism about "market socialism", it has not led to an unthinking acceptance of capitalism or to the type of strategy outlined by Sachs. The "Third-Wayers" in Hungary have placed an alternative development model, with a domestic rather than international focus, on the political agenda and they are not an insignificant Hungarian political force.

It is unlikely that a rapid strategy--as was attempted in Poland--will be promoted in Hungary. Such a turn is

unlikely, even if the MDF loses power and is replaced by "radical-liberals".

Twenty-four percent of Hungary's eligible voters would not turn up at the polls "were there to be a general election next Sunday," the Hungarian Gallup Institute found in the latest of the month party preference polls it has been conducting since May [1991]. A further 19% of the 1,500 adult Hungarians asked by Gallup could not single out a political party as their favorite. Gallup, quoted in the daily Nepszabadsag, said these figures have been practically the same throughout the past five months.

As far as potential voters are concerned, the majority (33%) would support the opposition Alliance of Young Democrats (FIDESZ), which received only five percent of the votes in the country's first post-communist democratic elections in April 1990. The likewise opposition Alliance of Free Democrats (SZDSZ) would tie, according to Gallup, with governing coalition-leader Hungarian Democratic Forum (MDF) with 18% each. In 1990, the MDF won the elections with 42%, while SZDSZ received 24%.(43)

The growing popularity of FIDESZ does not indicate that rapid "liberalization" is necessarily around the corner in Hungary. FIDESZ does not support a classical liberal approach, but is more accurately portrayed as a welfare state advocate. The following quote taken from a FIDESZ political pamphlet supports this classification:

However, a market economy does not ensure citizens' equality of opportunity, it

produces and reproduces inequalities. The political institutions of democracy are not capable in themselves of healing inequalities that so arise. For this reason, a conscious social policy is needed to set aright the social disadvantages that develop and to create equality of opportunity. However, this social policy cannot mean the elimination of the market economy, nor should it produce a centralized economy that leads to the elimination of democracy.(44)

A capitalist welfare state is not market socialism, but the promotion and development of either one will take time.(45) During the transition, if FIDESZ attains political power, it may find that it has to take an active role in directing the economy. Reliance on a social policy will prove insufficient given the major industrial restructuring that is also required. Hungary, like other East European states, needs a far-reaching industrial policy. To date, this is where the problem lies. An important obstacle to reform in Hungary is lack of policy--not a radical neo-liberal agenda nor a rigid rejection of a role for the state.

III. POLITICAL AND SOCIAL LIMITS

Deborah Milenkovich writes,

One component missing from the process of

transition in East Central Europe is becoming increasingly clear: There is no industrial policy in any of these countries. It is unclear whether this is because of a belief in the sufficiency of the monetarist prescription of stable currency and competition, a profound revulsion at the idea that the state must continue to play an important role in the economy or a shying away from the truly difficult task of closing down major sectors of the economy.(46)

Bruszt and Stark write,

To date, these [economic] policies have not been particularly innovative, coherent or consistent. The most striking aspect of the [Hungarian] government's current policy has been its extreme cautiousness--as if the new political class is unwilling to call upon society to make the sacrifices that will necessarily accompany measures that address the fundamental problems of the economy.(47)

One obvious problem in developing a thorough and consistent economic strategy is the scope of economic difficulties: the problem of where to start. There are also significant external factors which limit Hungary's policy choices. Because of its large foreign debt and its links to the IMF, for instance, Hungary will come under external pressure to implement a restrictive fiscal and monetary policy.

There are, however, important internal constraints which also limit economic policy choices. Hungarian

political parties do not have deep roots in Hungarian society, and this lack of depth will make it difficult for any party to mobilize the public support necessary to implement a comprehensive economic policy. Bruzst and Stark argue:

Parties have developed in hothouse atmospheres, in which transition from social movements to political parties can be measured in months rather than years. If, for a decade or more, some of their leaders had been courageously calling on the state to change its ways, the period in which they addressed society and mobilized it for a confrontation with the state was very brief; and the week when this mobilization reached its crescendo, on 16 June 1989, was the same week it began rapidly to subside. The summer of 1989 was not a season of organizing society, but a time of negotiating with other political parties, while the fall and winter were devoted to electoral campaigns. . . . Moreover, despite their short life and their shallow roots, the new political parties in Hungary have been remarkably successful in filling the entire political space. But this almost totalizing supremacy of party politics finds the society unorganized and still lacking intermediary forms of political organization, such as trade unions, corporatist institutions or broad social movements. (48)

The lack of intermediate political organizations and the weak links between Hungarian society and political parties, make political cautiousness necessary. Arguably, the

weakness of Hungarian civil society and its lack of ties with the newly organized political parties facilitated initial political institutional change, but will now hinder attempts to effect deeper economic and political changes. (49)

These domestic limits are further compounded by the effects of general political apathy. Pessimism and a feeling of inability to effect any change have left many Hungarians simply uninterested and uninvolved with political issues. (50) Eniko Tegyi writes,

Hungarians are full of pessimism. Asked about their experiences since their "silent revolution" in 1989, they emphasize gloom: the whole economy seems to have broken down, all at once.

What the Hungarians have experienced from the changes is not a striking difference in the freedom of speech, but a striking difference in working and living conditions. (51)

Hungarians are watching the economy and their own security crumble and, although some Hungarians have benefited economically from the changes, most have seen a deterioration in their living standards. (52) Resentment is also growing because of what many people view as a

government sellout of Hungarian companies to foreign capital.(53) Finally, which Hungarians seem to be benefitting from the changes? Bruner writes,

Many people brood about yesterday's communist nomenklatura becoming today's nouveau riche. "Those in positions of power in the previous regime had networks in place and were the first ones to skim off the cream," Modley said. "Many Hungarians feel that nothing's really changed. The people who were in power are still in power. They now own private businesses. After all, who is the western investor going to approach when it was first possible to approach anyone? People who've had experience dealing with western firms. Who were those people? The people with power and authority in the previous regime. . ."(54)

"Democracy" and the capitalist welfare state in the West have been able to operate with relatively low participation rates, and have not yet ground to a halt because of political apathy. Both the promotion and sustaining of market socialism, however, require mass political participation and active intermediate political groups. Currently, in Hungary, democracy and the capacity of any political party to effect greater change (economically or politically) are limited by general political apathy.

In Hungary the greatest obstacles to market socialism are neither a "profound revulsion" of a role for the state nor an acceptance of monetarist prescriptions. Indeed, the ideological orientation of Hungarians is arguably more conducive to market socialism than to capitalism. As was earlier noted, it is foolish to believe that socialist principles such as equality and employment guarantees are now meaningless for the peoples in Eastern Europe. Although speculative, most Hungarians would prefer to maintain certain social democratic principles and have not suddenly transformed into classical liberals. A strong "liberal" ideology has not taken root in Hungary and this is reflected in the platforms of Hungary's political parties. Kovacs argues,

Even the more radical reform concepts do not rely on a profound philosophical (ethical) basis, on strong arguments about the intrinsic "beauties" of the market and the virtues of private property, that is, on a radical liberal dream. Instead, the [Hungarian] reformer sees the market in a pragmatic-utilitarian way as a device for "repairing" the Soviet-type economy.(55)

Hungarians, and most East European peoples, are getting a strong, rapid dose of uncertainty and insecurity--a first

taste of the precarious capitalist adventure. "Cultural revulsion" towards capitalism and the negative externalities that it generates are important factors which lead to political demands for change.(56) In Eastern Europe, where people are accustomed to security and equality is viewed as a worthwhile end, political demands for control of the market are more likely to evolve than in the West (that is, where functioning capitalist markets have led to general cultural and political acceptance).(57) That a social and political backlash will develop in Eastern Europe in response to economic hardships is not an unreasonable prediction.

While the people of Hungary desire a more efficient economy that is geared towards satisfying consumer demand, this does not further imply that a capitalist market is also desired. Kornai argues, "People [Hungarians] must change their way of thinking. Enrichment has long been considered something shameful. A fallacy has reached the marrow of people's bones: if someone gets more then it is because he took it away from others."(58) What Kornai wants to see is "enterprise" or a willingness by Hungarians "to take risks

and to invest their money and wealth," to add to their own incomes and to contribute to the good of all because "national welfare is but the sum total of individual welfares."(59) Kornai wants to see a liberal ideology take root in Hungary; but why is it necessarily a problem for people to view equality, for instance, as generally desirable? Kornai would likely reply that the problem lies in an equity-efficiency tension or trade-off: levelled incomes weaken the material incentives that lead to efficient economic performance. Kornai points to this trade-off as an important reason for the failure of past Hungarian reform attempts. Kornai writes,

The managers and workers of firm H will feel that the established proportions of earnings are "unjust". It is not because of their poor work that they have little or no profit--why then should they be punished? Therefore, they try to put pressure upon higher authorities to equalize earnings. The higher authorities themselves often feel that it is wrong to tolerate any serious inequality, since that would contradict the egalitarian traditions of the socialist movement and the acknowledged principle of "equal pay for equal work."(60)

Political pressure for equalized wages, argues Kornai, by eliminating material incentives, negatively affected the goal of improved economic performance.(61)

The tension between equality and efficiency is not, however, as straightforward as orthodox economics would suggest. Gordon, et al., correctly argue that the equality-efficiency trade-off "depends on the assumption that we are already using our resources in the most sensible way and that, as a result, the economy is a zero-sum game--more of something else means less of something else."(62) Moreover, Gordon, et al., demonstrate theoretically and empirically that greater equality does not imply that economic performance must suffer--indeed, it can improve economic performance.(63) Further, as discussed in chapter two, absolute economic equality is not a market socialist goal. The goal is to eliminate insecurity and extreme inequality. Under market socialism the market is not abandoned as a means to provide material incentives. Allowing a market implies inequality, but the degree of inequality permitted would be settled politically, not by an abstract economic analysis with questionable assumptions.(64)

Equality was/is a principle that does have meaning for Hungarians. This suggests, at the least, that social and/or

cultural acceptance of capitalism may not be easy to attain in Hungary. Moreover, it would also seem that a political culture conducive to the development of market socialism may be present. Privatization and marketization (liberalization) are viewed as necessary, but so is intervention by the state. "Liberalization" in Hungary does not automatically imply that a role for the state is denied or that capitalism is the desired end. Given the general ideological background of Hungarians, it is not unrealistic to expect social demands for political control of the market (and the process of marketization) to promote general social goals over particular or individual economic interests. That is, it is not unrealistic if public debate can be initiated and political apathy reduced.

IV. CONCLUSION

We are certainly going to see a little more leeway for free enterprise and stronger market orientations by necessity and by default of the old planning apparatus; but very pragmatic, very partial, and politically not very well anchored markets. Or, to conclude as we began with Adam Smith: "To expect, indeed, that the freedom of trade should ever be entirely restored . . . is as absurd as to expect that an Oceana or Utopia should ever be established.(65)

As this chapter has argued, marketization in Hungary is pragmatically viewed as a necessary process. Hungarians have not suddenly transformed, en masse, into radical capitalists, as the Western media tend to suggest. A past obstacle to economic reform in Hungary--a centralized political system--has been eliminated. The failure of past reform in Hungary, however, has left many doubtful about the viability of market socialism. These doubts about market socialism are arguably misplaced as market socialism cannot work, as Chapter two argued, within a monohierarchical system.(66) Nevertheless, uncertainty about market socialism has not also persuaded Hungarians that capitalism is the answer. Instead, social democratic, not classical liberal, best describes the predominant ideological force in Hungary.

The limits to fostering market socialism in Hungary are neither ideological nor the absence of political debate or support for an alternative development model. A major problem, however, is widespread political apathy. Political apathy will make it difficult to stimulate intermediary political organizations, and to increase ties between

Hungarian political parties and civil society. All East European states need to implement a comprehensive industrial policy to direct prudently the transformation. But the weak social foundations that Hungarian political parties rest on makes it difficult for any party to mobilize the support necessary to introduce a broad-ranging economic policy.

The old system is crumbling, but, to date, attempts to direct and promote a new system have been limited. The lack of policy and the extreme cautiousness of policymakers in Hungary are unavoidable given the weak links between Hungarian society and political parties. This is a vicious circle that will be difficult to break: lack of policy will worsen not improve the general economic situation for most Hungarians, in turn, increasing political apathy and resentment.

CONCLUSION: A SEMI REVOLUTION(1)

In the late 1980s, the Hungarian economy exhibited a number of serious negative phenomena, both social and economic. On the social level the chronic housing problem, the very long hours of work (resulting from the second and third jobs of state economy employees), alcoholism, morbidity and poverty were all serious problems. On the economic level, stagnant or declining real wages throughout the 1980s (at any rate if state sector income is only considered), inflation, balance of payments deficit and growing foreign debts were all major problems.(2)

Strengthening the economy is Hungary's new political leaders most urgent and pressing problem. Economic strategies adopted now will directly affect immediate, tangible conditions for Hungarians, and, more generally, the long term evolution of economic and political institutions. All East European states must promote marketization and stabilization--the crucial question is how. A rapid liberalization strategy, which its proponents hope will lead to "capitalism" and an open, competitive economy, is limited for economic, political, and social reasons. The negative short-run impact of a rapid strategy makes it politically unsustainable. In the long-run, moreover, it would do little to improve the position of most East European

peoples. A rapid marketization approach would simply transfer ownership of the bulk of state-owned assets to either foreign capital or to old party nomenklatura.

The alternative, a gradualist marketization strategy, is admittedly vague and opaque: its focus is domestic development and its outcome is uncertain. It is certain, however, that a rapid strategy cannot succeed. Further, if we compare the social costs of a rapid versus a gradualist strategy, then it is evident that the latter is preferable. Given the scale and inherent difficulties of the economic transformation, a cost-minimization criterion is arguably appropriate. We should not ignore the social and political impact of economic policies nor forget that "democracy" is also a valued East European goal. Economic inequality and a continuing deterioration in living standards will hinder attempts to promote greater democratization.(3)

In Hungary there exists significant political support for an alternative development strategy: the third way. A third way strategy is aware of and concerned with distributional and social questions. It favours fostering

the development of the domestic private sector--along side of the state sector (which is not dismissed a priori as inefficient and unnecessary). A third way strategy, if successful, would lead to a dual economy, similar to the one outlined in chapter two, and could be considered market socialist. Even if a third-way strategy is not intentionally promoted, the size of the state sector, the difficulties of disinvestment, and the need for public goods all suggest a continuing role for the state in the economy. Finally, in Hungary, there is no prominent political party with a radical neo-liberal agenda. Indeed, social democratic seems to be the predominant ideological force not classical liberal. A role for the state is not ideologically rejected by Hungary's major political parties, nor has the market as saviour been whole-heartedly embraced.

Although the Third Way corresponds to the [Hungarian] government's domestic constituency and its political exigencies, modified Thatcherism more closely reflects the preferences of its international constituency and its economic exigencies. Hence, it would hardly be surprising if the government seeks to straddle the two approaches, using neoclassical orthodoxy in its approach to stabilization while adhering more closely to a Third Way strategy in its approach to structural reform issues.(4)

In Hungary a combination of rapid and gradual strategies is not unlikely nor should it be surprising. The most salient feature of future Hungarian economic strategy, however, could be the lack of economic policy; or stabilization without accompanying restructuring measures. A major problem for new political parties in Hungary is their inability to mobilize popular support, necessary for the introduction of broad-ranging changes. The weak ties between Hungarian civil society and political parties, and general political apathy are crucial factors which will negatively effect the evolution of economic policy. Furthermore, uncontrolled marketization will lead to further political apathy and disenchantment as only a minority of Hungarians would benefit economically. Bruner writes,

"Sometimes [Hungarian entrepreneurs] don't have to circumvent [rules and regulations], because sometimes the regulations don't exist. In fact, we have established a private economy without regulations. It's a jungle . . ." [said Matyas Vince, a journalist who has been editor of the three most successful business periodicals in Hungary.]

The rulers of the jungle are already sharpening their claws. Economist Gyorgy Matolcsy believes "plutocrats" will own as much as 25% of all property in Hungary by the year 2000.(5)

Who are these plutocrats likely to be? As was discussed, those in a position to gain were those in power when the changes were first introduced. Not only are its distributional consequences undesirable, but lack of policy will also make it continually more difficult to manage effectively the large state sector. Fiscal positions will continue to deteriorate as will economic performance: capital stock will become older and more obsolete, and infrastructures will become increasingly costly to develop.

The Western media is inaccurate when it portrays Hungarians as "capitalists". Historical, social and cultural conditions are different than those in the West, as are attitudes regarding the roles of the market and the state. Economic limits and political beliefs suggest that market socialism is a possibility in Hungary. The greatest obstacle to reform in Hungary is widespread political apathy. Although it is impossible to foresee Hungary's future, we can argue, with a great deal of certainty, that a Western-capitalist structure will not evolve. It also seems certain that if Hungary cannot implement a gradualist marketization strategy and an active state-directed

restructuring policy, then the majority of Hungarians will
continue to suffer under a withering economy.

FOOTNOTES

INTRODUCTION

1 The first difficulty that arises is what to call the states in "Eastern" Europe. Some prefer East Central or Central Europe, but this essay will use Eastern Europe to denote Poland, Hungary, Romania, Bulgaria and Czechoslovakia. Further, I make no attempt to include what used to be the Soviet Union in this analysis. The differences between the Soviet area and Eastern Europe now outweigh the similarities.

2 The editor of the Journal of International Affairs argues: "Both reformed communists and former opposition figures now face economic crises of ever-growing magnitude. Where 'shock therapy' conversions to the market may have looked quick and simple, though painful, on paper, they have been extraordinarily complex and confusing for both economists and politicians." "Editor's Foreword," Journal of International Affairs. Vol. 45, No. 1, pp. iii-iv.

3 Gyorgy Balo and Ivan Lipovecz, eds., (1991). Tenyek Konyvo. Budapest: Alfoldi Ryomda, pp. 19-20 and p. 613. (Translated, from Hungarian to English, by Andrea Verlag.)

4 Ibid. Michael Meyer writes "'Everywhere there is poverty--beggars on the street, people sleeping in the subways, shops full of goods that no one can afford [Andras Hirschler, Director of Investcenter].' Two of three Hungarians are having trouble making ends meet; living standards are nose-diving, breeding social unrest." Michael Meyer (1992), "Goulash Capitalism," Newsweek. January 13, 1992, p.20. (Despite Meyer's recognition that the social costs are high, he still views the changes underway in Hungary as very positive, wonderful, exciting . . .)

5 Laszlo Bruszt and David Stark (1991), "Remaking the Political Field in Hungary: From the Politics of Confrontation to the Politics of Competition," Journal of

International Affairs. Vol. 45, No. 1, p. 210.

6 Richard W. Bruner (1991), "The Price of Change," Budapest Week. October 24-30, 1991, p. 7.

7 Arguably there are only two approaches because East European states do not yet have the luxury, for instance, to think about whether they desire a strong or weak welfare state. Current policy will affect future structures, but presently the main objective will be keeping afloat while promoting marketization. For a good discussion on economic policy limits, see Ellen Comisso (1991a), "Political Coalitions, Economic Choices," Journal of International Affairs. Vol. 45, No. 1.

8 I will examine the implications of a third way (or gradualist) approach in chapter two, and will look at who the third "wayers" are in chapter three.

9 How liberalism is viewed, at least in Hungary, will be developed in chapter three.

10 There is a great deal written on the NEM. Articles and books by Janos Kornai are particularly good references. For example, see Janos Kornai (1986), Contradictions and Dilemmas: Studies on the Socialist Economy and Society. Cambridge, Massachusetts: The MIT Press.

11 On the limited nature of the NEM, see Ellen Comisso and Paul Marer (1986), "The Economics and Politics of Reform in Hungary," International Organization. Vol. 40, No. 2; I. T. Berend (1989), "The Crisis of the Hungarian Reform in the 1970s," Acta Oeconomica. Vol. 40, Nos. 1-2; and, L. Szamuely (1989), "Intentions and Constraints: Reflections on Reading Ivan T. Berend's Study," Acta Oeconomica. Vol. 40, Nos. 1-2.

12 For some statistics on the size, role, and nature of Hungary's private sector or second economy see Bruno Dallago (1989), "The Non-Socialized Sector in Hungary: An Estimation of its Importance," Yearbook of East-European Economics. Munich: Gunter Olzog Verlag, Vol. 13, No. 2.

13 The centralized economies used to include the

Soviet Union, Hungary, Poland, Romania, Czechoslovakia, Bulgaria, (and East Germany).

14 Wlodzimierz Brus (1972), The Market in a Socialist Economy. London: Routledge & Kegan Paul, pp. 65-71.

15 Michael Ellman (1989), Socialist Planning (second edition). Cambridge: Cambridge University Press, p. 19. Monohierarchical: a combination of state ownership of the means of production and political dictatorship.

16 Ibid., p. 24.

17 Ibid., p. 22.

18 On economic behavior in the centralized model see: Michael Ellman (1989), Socialist Planning, second edition. Cambridge: Cambridge University Press; Alec Nove (1983), The Economics of Feasible Socialism. London: George Allen & Unwin; and, Janos Kornai (1986), Contradictions and Dilemmas: Studies on the Socialist Economy and Society. Cambridge, Massachusetts: The MIT Press.

19 See Janos Kornai (1986), op.cit.

20 Janos Kornai (1980), "The Dilemmas of a Socialist Economy: The Hungarian Experience," Cambridge Journal of Economics. Vol. 4, No. 4, p. 152.

21 For a good summary on the nature of and the reasons for the shortage economy see Alec Nove (1983), The Economics of Feasible Socialism. London: George Allen & Unwin.

22 Ibid., pp. 71-2.

23 On the negative effects of overinvestment, see Ellman (1989), op.cit. In particular, pp. 154-69.

24 Ibid., p. 163.

25 Ibid.

26 Ibid., p. 138.

27 Ibid., p. 151.

28 Paul Marer (1991), "The Transition to a Market Economy in Central and Eastern Europe," The OECD Observer. No. 169, April/May 1991, p. 5. On obsolescent capital stock: "In [Hungarian] industry, for example, the share of assets less than five years old declined from 41 percent in 1975 to 24 per cent in 1987. Moreover, the nation's aging capital stock was poorly maintained." Secretariat of the Economic Commission for Europe (1990), Economic Survey of Europe in 1989-90. New York: United Nations Publication, p. 245.

29 Secretariat of the Economic Commission for Europe (1991), Economic Survey of Europe in 1990-91. New York: United Nations Publication, p. 75, and see pp. 74-82.

30 Paul Marer (1991), op.cit., p. 5.

31 Ibid.

32 For an overview of Hungary's past economic performance see the Secretariat of the Economic Commission for Europe (1990 and 1991), op.cit.

33 Ellen Comisso and Paul Marer (1986), "The Economics and Politics of Reform in Hungary," International Organizations. Vol. 40, No. 2, p. 444.

34 Ibid., p. 425.

35 L. Szamuely (1989), "Intentions and Constraints: Reflections on Reading Ivan T. Berend's Study," Acta Oeconomica. Vol. 40, Nos. 1-2, p. 154.

36 I. T. Berend (1989), "The Crisis of the Hungarian Reform in the 1970s," Acta Oeconomica. Vol. 40, Nos. 1-2, p. 132.

37 Ibid., p. 115.

38 Hungary's economy in the 1970s and 1980s cannot be considered market socialist. Although Hungary introduced what seemed to be substantial changes, its system was still

a version of the centralized model. See Bela Csikcs-Nagy Comments in Schuller's (1988) Does Market Socialism Work? London: The Centre for Research into Communist Studies, p. 69. In particular, Nagy correctly argues that the organization of the economic system was dominated by vertical rather than horizontal exchange relations, and there were neither labour nor capital markets. Ibid., p. 115.

39 For a general survey of "socialism" see Bernard Crick (1987), Socialism. Minneapolis: University of Minnesota Press.

40 "Market socialism" will be defined and discussed in chapter two.

41 Wlodzimierz Brus (1972), op.cit., pp. 137-38.

42 Ellen Comisso (1991a), op.cit., p. 1.

43 The reasons for what often seems to be a no-policy approach and its effects will be considered in chapter three.

CHAPTER ONE: ECONOMIC CATASTROPHE AS REVOLUTION

1 Jeffrey Sachs (1990), Eastern Europe's Economies: What is to be Done?" Comparative Politics 90/91, Eighth Edition. Guilford, Connecticut: The Dushkin Publishing Group.

2 Poland followed Sachs's formula and it seems that Russia will also take this route despite the great uncertainty regarding success: "'The expectations [about Russia's economic performance] should be kept very low,' counsels Swedish economist Aslund. 'Anything that is less than complete chaos must be considered a success.'" "Yeltsin Rolls the Dice," International Business Week. December 16, 1991, p. 20.

3 Orthodox refers to a "mainstream" or "textbook" economic analysis. It is characterized primarily by its abstract analysis and its lack of attention to social and political factors: economics is studied within a stylized market structure.

4 Jeffrey Sachs (1990), op.cit.

5 Ibid.

6 Ibid., p. 153.

7 Ibid., p. 154.

8 Sachs uses a rational expectations approach which broadly is a theoretical attempt to link micro and macro economic levels. This approach not only argues that unemployment is necessary, but it is also influential in Sachs's emphasis on rapidity. Simon, who advocates the same policy as Sachs, writes: "In order to avoid that expectations work against macroeconomic policy, policy must be implemented completely and immediately. If consumer prices are set at their final value overnight, no expectations of further increases are justified." A. Simon (1990), "Eastern Europe's movement Towards Capitalism: Hard Landing or Soft Landing?" Acta Oeconomica. Vol. 42, Nos. 1-2, p. 45. Such an approach, Simon and Sachs believe, will not only lead to real prices, but will also eliminate inflationary pressures.

9 Jeffrey Sachs (1990), op.cit., p. 154.

10 In orthodox economic theory the economy is isolated from social and political institutions. Indeed, the market itself is portrayed in a highly abstract manner. For instance, the number of firms defines the market structure: a market is competitive if there are many firms. This abstract, narrow perspective is a common Marxist criticism of orthodox analysis. See, for instance, John Weeks (1981), Capital and Exploitation. Princeton: Princeton University Press.

11 Richard Bruner writes "To a great many Hungarians, these changes are bewildering beyond comprehension. The

other day, a sad-voiced woman phoned a radio talk show to express her conviction that the 1960s were better for Hungary than the present." With the combination of insecurity and uncertainty and growing poverty, this attitude is probably not unusual. See Richard Bruner (1991), "The Price of Change," Budapest Week. October 24-30, 1991, p. 7.

12 Secretariat of the Economic Commission for Europe (1991), Economic Survey of Europe in 1990-1991. New York: United Nations Publication, p. 119.

13 Jeffrey Sachs, op.cit., p. 154.

14 Ibid.

15 Richard C. Longworth (1990), "E.C. Fosters change in Eastern Europe," Europe. November, 1990, p. 25. Also see this issue for aid packages that the EC has outlined for Eastern Europe.

16 Although autarky is not a Hungarian option, the type of international economic strategy that it follows is important. To believe that Hungary can successfully promote an economic strategy like that of the NICs is unrealistic. An export-led growth strategy (with a West European focus), however, is what Sachs's policy suggests.

17 Deborah Milenkovitch (1991), "The Politics of Economic Transformation," Journal of International Affairs. Vol. 45, No. 1, p. 163.

18 Jeffrey Sachs, op.cit., p. 155.

19 Policy reversals in Poland demonstrate this. See, for instance, Stanislaw Wellisz (1991), "The Lessons of Economic Reform: The Polish Case," Journal of International Affairs. Vol. 45, No. 1.

20 Ibid.

21 Ellen Comisso (1988), "Market Failures and Market Socialism: Economic Problems of the Transition," East European Politics and Societies. Vol. 2, No. 3, p. 447.

22 Ibid., p. 448.

23 Ibid., pp. 448-9.

24 Ibid., p. 449.

25 Ibid., p. 450.

26 Ibid.

27 On the negative effects of neither plan nor market (primarily, a rapid increase in demand for imports and massive borrowing by state-owned enterprises), see, for example, Tamas Bauer (1988), "Hungarian Economic Reform in East European Perspective," East European Politics and Societies. Vol. 2, No. 3.

28 Secretariat for the Economic Commission of Europe (1991), op.cit., p. 158.

29 Ibid.

30 Ibid.

31 Jeffrey Sachs (1990), op.cit., p. 153.

32 Tardos in Comisso (1988), op.cit., p. 153.

33 Ibid.

34 See Comisso (1988), op.cit., p. 451.

35 On the political exceptions and exemptions (or political bailouts) which prevented market adaptation, see the Introduction, pp. 15-16.

36 Tardos in Comisso (1988), op.cit., pp. 450-1.

37 See Csikos-Nagy Comments in Alfred Schuller (1988), Does Market Socialism Work? London: The Centre for Research into Communist Economies, p. 69.

38 For information on Hungary's second economy, see the Yearbook of East-European Economics (1989). Munich:

Gunter Olzog Verlag, Vol. 13, No. 2.

39 Ellen Comisso (1988), op.cit., pp. 440-1.

40 Secretariat for the Economic Commission of Europe (1991), op.cit., p. 133.

41 David Stark (1990), "Privatization in Hungary: From Plan to Market or from Plan to Clan," East European Politics and Societies. Vol. 4, No. 3, p. 352.

42 Janos Kornai (1990), The Road to a Free Economy. New York: W.W. Norton & Company, p. 56.

43 Peter Akos Bod (1990), "A Roundtable on Privatization," New Hungarian Quarterly. Vol. 31, No. 117, p. 94.

44 If a rapid privatization strategy is promoted, then reliance on foreign capital is necessary because of the lack of domestic capital. David Stark writes, "Given the ratio of public assets to private savings (most estimates are that private domestic savings, even with credit, could buy only about 10 percent of current state assets), and given the weight of convertible currency foreign debt, rapid sales of state enterprises would tend to favor foreign buyers." David Stark (1990). op.cit., pp. 370-1.

45 Steve Dryden (1990), "Investing in Eastern Europe," Europe. January/February, 1990, p. 24.

46 Ibid.

47 Ivan Szelenyi (1990), "Alternative Futures for Eastern Europe: The Case of Hungary," East European Politics and Societies. Vol. 4, No. 2, p. 250.

48 David Stark (1990), op.cit., pp. 370-1.

49 See "A Roundtable on Privatization," New Hungarian Quarterly. Vol. 31, No. 117; and, Irena Grosfeld (1991), "Privatization of State Enterprises in Eastern Europe: The Search for a Market Environment," East European Politics and Societies. Vol. 5, No. 1.

50 Secretariat for the Economic Commission of Europe (1991), op.cit., p. 160.

51 Ibid.

52 Istvan Csillag (1990), "A Roundtable on Privatization," New Hungarian Quarterly. Vol. 31, No. 117, p. 92.

53 On semi-privatization in 1984, see David Stark (1990), op.cit.; and, M. Tardos (1989), "Economic Organizations and Ownership," Acta Oeconomica. Vol. 40, Nos. 1-2.

54 Janos Martonyi (1990), "A Roundtable on Privatization," New Hungarian Quarterly. Vol. 31, No. 117, p. 91.

55 Peter Akos Bod (1990), op.cit., p. 93. For a defence of spontaneous privatization see Gy Matolcsy (1990a), "Defending the Cause of Spontaneous Reform of Ownership," Acta Oeconomica. Vol. 42, Nos. 1-2.

56 Peter Akos Bod (1990), op.cit., p. 92.

57 Janos Martonyi (1990), op.cit., p. 92.

58 Ibid.

59 See J. A. Schumpeter (1975). Capitalism, Socialism, and Democracy. New York: Harper Torchbooks.

60 Monopolies in a capitalist system operate within a market and their decision-making is affected by the market's operation. See Auerbach, et al. (1988), "The Transition from Actually Existing Capitalism," New Left Review. No. 170, July/August 1988.

61 Peter Akos Bod (1990), op.cit., p. 95.

62 David Stark (1990), op.cit., p. 371.

63 Ibid., p. 372.

- 64 Ibid., p. 373.
- 65 Ibid., pp. 373-4.
- 66 Ibid., p. 375.
- 67 Ibid.
- 68 Ibid., pp. 377-8.

69 This is a socialist argument or position which challenges the liberal assumption that an atomized market maximizes social welfare. The concept of "market socialism"--a controlled market--will be developed in the next chapter.

70 See David Stark (1990), op.cit., p. 380; and, Ivan Szelenyi (1990), op.cit. Related to dispersed ownership is the issue of employee operated (owned) enterprises. There is a great deal of literature on this--see, for instance, L. Neumann (1990), "Small Business Off-Shoots from Large Manufacturers--A Privatization Option," Acta Oeconomica. Vol. 42, Nos. 1-2.

- 71 Ivan Szelenyi (1990), op.cit., p. 250.
- 72 David Stark (1990), op.cit., p. 388.
- 73 Ibid., p. 389.
- 74 Ibid., p. 391.
- 75 Ibid., p. 392.
- 76 Ivan Szelenyi (1990), op.cit., p. 248.
- 77 Ibid., p. 247.
- 78 Ibid., p. 252.

CHAPTER TWO: MARKETING SOCIALISM

1 Ivan Szelenyi (1990), op.cit., p. 232.

2 See Alec Nove (1983). The Economics of Feasible Socialism. London: Allen & Unwin.

3 Ellen Comisso (1991), "Property Rights, Liberalism, and the Transition from 'Actually Existing' Socialism," East European Politics and Societies. Vol. 5, No. 1, p. 179.

4 Political reasons for believing that a social democrat rather than a liberal ideology will predominate, will be developed in chapter three.

5 Lou Ferleger and Jay R. Mandle (1990), op.cit., p. 127.

6 Michael Harrington (1989), "Toward a New Socialism," Dissent. Spring, 1989, p. 70.

7 Competition is the beauty and beast of capitalism. Competition is what gives capitalism its innovative character--its ability to revolutionize the means of production from within. Competition, however, also leads to uneven development, economic crisis and the concentration and centralization of capital. Both Marx and Schumpeter, for instance, pointed to the socially disruptive nature of capitalism (Schumpeter, of course, highlighted the benefits gained by this process: "creative destruction"). See Joseph Schumpeter (1975), Capitalism, Socialism, and Democracy. New York: Harper Torchbooks. Alec Nove writes: "One sees, in varying degrees, the social-political unacceptability of rapid transformation of societies in the name of private profit, where highly imperfect markets and uneven development enable some individuals to grow very rich indeed while the very poor remain very poor." Alec Nove (1983), The Economics of Feasible Socialism. London: George Allen & Unwin, p. 6.

8 Generally, a welfare state is social policy plus a (fundamentally unaltered) capitalist market. Market

socialism, by intervening in the market, changes significantly the market's operation. For instance, it would change the social conditions under which the wage bargain is made. See this chapter, pp. 69-70. Admittedly, this is a rather vague criterion. For example, where does Sweden with its active social-labour policy, or France with its active state industrial policy, fit in? It is impossible to draw a theoretical line, I think, distinguishing welfare-state capitalism and market socialism. Instead, consideration of economic policy and ideological beliefs of concrete cases tends best to suggest appropriate categories.

9 Welfare state proponents do not challenge the basic underlying liberal assumptions which portray the unfettered market as the best means to promote social goals. Social policy may assist those who are negatively affected by the operation of the capitalist market, but it does not alter the conditions or social relations which lead necessarily to the generation of these negative externalities.

10 Ibid. A welfare state falls under the capitalist category because it does not intervene to control meaningfully the market, as it is believed that a uncontrolled market is economically and politically superior.

11 Ellman writes that Marxism stresses the two following advantages that socialism has vis-a-vis capitalism: "First the absence of the anarchy of production, and secondly the absence of class conflict." Ellman (1989), op.cit., p. 8. Socialists challenge basic liberal assumptions by arguing that what is rational behavior for an atomistic firm (or individual) is often irrational for society as a whole. The classical liberal argument portrays the relationship between the individual and society as harmonious: there is no conflict, hence an improvement for one is an improvement for all. But, externalities are decisive in a critique of capitalism, and favour arguments for socialism. Externalities are caused by market failure and occur when costs (and benefits) are not captured completely by the market exchange mechanism. Pollution is an illustrative example. Viewing both costs and benefits from a social standpoint, theoretically, internalizes

externalities by properly measuring the value of their indirect and direct social effects.

12 See, for instance, Bernard Crick (1987), Socialism. Minneapolis: University of Minnesota Press.

13 Alec Nove (1983), op.cit., p. 200.

14 Ellen Comisso (1989), "Property Rights in Focus," Acta Oeconomica. Vol. 40, Nos. 3-4, p. 211.

15 Ibid.

16 Ibid.

17 Lou Ferleger and Jay R. Mandle (1990), "The Economic Future of Socialism in Eastern Europe," Socialist Review. Vol. 20, No. 2, p. 128.

18 Ibid., p. 130.

19 The notion that market socialism is more than a technical issue will be developed in chapter three.

20 Alec Nove (1983), op.cit., p. 227.

21 Ibid., pp. 221-2.

22 We will examine the effects of non-controlled marketization in chapter three.

23 See Wlodzimierz Brus (1973), The Economics and Politics of Socialism. London: Routledge & Kegan Paul; and, Alec Nove (1983), op.cit.

24 Saul Auerbach, et al., (1988), "The Transition from Actually Existing Capitalism," New Left Review. No. 170, July/August, 1988, p. 73.

25 Ibid., pp. 63-65. For Mandel's argument see "In Defence of Socialist Planning," New Left Review. No. 159, September/October 1986.

26 Ibid., in particular, see p. 62 and p. 75.

- 27 Ibid., p. 75.
- 28 Ibid.
- 29 Ibid.
- 30 Ibid., p. 76.
- 31 Michael Harrington (1989), op.cit., p. 69.
- 32 Ibid.
- 33 David Miller and Saul Estrin (1987), "A Case for Market Socialism," Dissent. Summer, 1987, p. 365.
- 34 Ernest Mandel (1988), "The Myth of Market Socialism," New Left Review. No. 169, May/June 1988, p. 114.
- 35 Ibid.
- 36 Ibid., p. 118.
- 37 Ibid.
- 38 Ibid., pp. 118-9.
- 39 Ernest Mandel (1986), "In Defence of Socialist Planning," New Left Review. No. 159, September/October 1986, p. 28.
- 40 Michael Harrington (1989), op.cit., p. 178; and, see Auerbach, et al., (1988), op.cit., p. 78.
- 41 John Dunn (1984), The Politics of Socialism: An Essay in Political Theory. Cambridge: Cambridge University Press, p. 31.
- 42 See Carl Von Clausewitz (1984), On War. Edited and Translated by Michael Howard and Peter Paret. Princeton: Princeton University Press. In particular see Chapters 4-7 (Book 1). Friction: "Countless minor incidents--the kind you can never foresee--combine to lower the general level of performance, so that one always falls short of the intended

goal." p. 119.

43 Ibid. It is the "human element" which causes friction.

44 Ibid.

45 An example is the use of "short-lines" in Saskatchewan which are privately owned and operated rail companies (which do show a profit) to service those areas that monopoly railway companies find unprofitable and will not service. Without short-lines, many areas in Saskatchewan would not have easy access to rail transportation. A monopoly company (private- or public-owned) could service these areas and finance losses through cross-subsidization; yet, this is arguably a waste of resources and unnecessary.

46 Ernest Mandel (1986), op.cit., pp. 21-22. In particular, Mandel is concerned with the despotism over producers--labour--if a market is allowed to operate.

47 David Miller and Saul Estrin (1987), op.cit., p. 366.

48 Ibid., p. 361.

49 Michael Harrington (1989), op.cit., p. 66.

50 Ibid., pp. 64-66.

51 Ibid., p. 65.

52 Ibid., p. 57.

53 Ibid.

54 Ibid.

55 A neoclassical or rational expectations economist would reject this; but, I think that this is a political/social issue that requires consensus and cooperation. It is not strictly an economic problem in the sense that it would not negatively affect the operation of

the "market" (the example of Sweden--a small and open economy--does demonstrate this). Of course, reaching such a consensus and inducing cooperation are not easy--but this is a separate issue.

56 Alec Nove (1983), op.cit., pp. 221-2.

57 Saul Auerbach, et al. (1988), op.cit., p. 78.

58 Ellen Comisso (1989), op.cit., p. 214.

59 Ibid., p. 213.

60 David Miller and Saul Estrin (1987), op.cit., p. 361.

61 Ellen Comisso (1989), op.cit., p. 213.

62 Some of the difficulties under capitalism include: socially undesirable investment; lack of investment; investment that focuses--too much--on the short-run and immediate interests; the "casino-like" nature of capitalism; etc.

63 Janos Kornai (1990), op.cit., p. 51.

64 Ellen Comisso (1991), op.cit., p. 164.

65 Ibid., p. 172.

66 Ibid., p. 169.

67 Ibid., p. 168.

68 Ibid., p. 169.

69 Ibid., pp. 168-72.

70 Ibid.

71 Ibid., p. 164.

72 Non-exclusion principle: "individuals and groups have the right freely to use property as they wish, and no

one is excluded from doing so." Ibid., p. 167.

73 Ibid., pp. 167-8.

74 Ibid., p. 171.

75 Ibid., p. 172.

76 Ibid., pp. 172-3.

77 Ibid., p. 173.

78 Ibid.

79 Ibid., p. 167.

80 Ibid. One example of a successful publicly-owned enterprise in Hungary was Tungsram--see page 40.

81 Ibid., pp. 174-5.

82 One possible way of promoting genuine economic behavior, or inducing ownership roles, is to pluralize public owners. As outlined in Chapter one, non-profit institutions such as hospitals, would hold shares in state-owned enterprises and would receive their endowments or revenues from these enterprises. Shareholders would then have a real interest in ensuring that enterprise behavior was economically sound. See Marton Tardos (1989), "Economic Organizations and Ownership," Acta Oeconomica. Vol. 40, Nos. 1-2. Also, the arguments developed by Auerbach, et al., indicate that the existence of monopolies (publicly-owned under market socialism) does not imply that competition or the market are necessarily sacrificed. See Auerbach, et al. (1988), op.cit.

83 This criticism is important because the failure of past reform attempts in Hungary have left many Hungarians very skeptical about the viability of market socialism--for example, see Janos Kornai(1990), op.cit.

84 Ellen Comisso and Paul Marer (1986), "The Economics and Politics of Reform in Hungary," International Organization. Vol. 40, No. 2, p. 444.

85 L. Szamuely (1989), "Intentions and Constraints: Reflections on Reading Ivan T. Berend's Study," Acta Oeconomica. Vol. 40, Nos. 1-2, p. 155.

86 Ibid., p. 158.

87 For this section, I rely primarily on Comisso and Marer (1986), op.cit.

88 Ibid., p. 434.

89 Ibid., p. 439.

90 Ibid.

91 Ibid.

92 Ibid., p. 440.

93 Ibid.

94 Ibid., p. 442.

95 Ibid., see, in particular, pp. 438-47.

96 Ibid., see, in particular, pp. 444-47.

97 Michael Meyer (1992), op.cit., p. 22.

98 See Deborah Milenkovich (1991), op.cit., pp. 159-160.

99 Ibid.

CHAPTER THREE: POSSIBILITIES AND LIMITS

1 John Dunn (1984), The Politics of Socialism: An Essay in Political Theory. Cambridge: Cambridge University Press, p. 92.

2 Gramsci argued that the reproduction of cultural acceptance was/is also central in maintaining the capitalist system: capitalism is more than relations of production. The argument that an economic structure is insufficient also holds for the development and sustaining of market socialism. Although this chapter does not consider Gramsci's arguments directly, it is influenced by Gramsci's analysis. See Antonio Gramsci (1989). Selections From the Prison Notebooks. Edited and translated by Quintin Hoare and Geoffery Nowell Smith. New York: International Publishers.

3 Bruszt and Stark (1991), op.cit., p. 241.

4 Ibid., and see Comisso (1991a), op.cit.

5 Bruszt and Stark (1991), op.cit., p. 231.

6 Ibid., pp. 228-231.

7 Ibid., p. 229.

8 Ibid.. p. 233.

9 Ibid.

10 Ibid., pp. 237-241.

11 Ibid., pp. 238-239.

12 Ibid., p. 239.

13 Ibid., p. 240.

14 Ibid., and see Comisso (1991a), op.cit.

15 Ellen Comisso (1991a), op.cit., p. 13.

16 Bruszt and Stark (1991), op.cit., p. 241.

17 Janos Matyas Kovacs (1991), "From Reformation to Transformation: Limits to Liberalism in Hungarian Economic Thought," East European Politics and Societies. Vol. 5, No. 1, p. 71.

18 See Mihaly Laki (1991), "Economic Programs of the Ex-Opposition Parties in Hungary," East European Politics and Societies. Vol. 5, No. 1.

19 Ibid., p. 91.

20 Andras Bozoki (1990), "Post-Communist Transition: Political Tendencies in Hungary," East European Politics and Societies. Vol. 4, No. 2, pp. 228-229.

21 I am uncertain of what Bozoki means by "value neutral". As for the advantageous positions that technocrats hold, see this chapter p. 106.

22 Ellen Comisso (1991a), op.cit., p. 4.

23 Mihaly Laki (1989), Opposition Movements and Parties on the Hungarian Economy. Budapest: The Hungarian Economic Information Service, p. 43.

24 See Ibid.

25 Ibid.

26 Mihaly Laki (1991), op.cit., p. 77.

27 Ibid., p. 76.

28 Ibid., pp. 79-80.

29 Ibid.

30 Ibid., p. 81.

31 See Ibid.; and Mihaly Laki (1989), op.cit.

32 Ibid.

33 Ibid.

34 Mihaly Laki (1991), op.cit., pp. 88-89.

35 Ibid.

36 Ibid.

37 On the current Hungarian social welfare policy, see the Secretariat for the Economic Commission of Europe (1991), op.cit., p. 161; and the Commission (1990), op.cit., pp.153-54.

38 Szelenyi for instance is a third way advocate, but rejects "market socialism". See Szelenyi (1990), op.cit.

39 Ibid. Szelenyi promotes a dual economy and does not reject a role for the state sector.

40 See Janos Kornai (1990), op.cit.; and, Szelenyi (1990a), "Hungary 1989: An Introduction," East European Politics and Societies. Vol. 4, No. 2.

41 Ibid.

42 Ibid.

43 Budapest Week, "Newsbriefs". October 3-9, 1991.

44 Federation of Young Democrats (1991). FIDESZ: Hungary 1991. Budapest: FIDESZ Central Office; Lendvay utca 28; Budapest, 1062, p. 18.

45 On the differences between market socialism and a welfare state see chapter 2, pp. 55-56.

46 Deborah Milenkovich (1991), op.cit., p. 159.

47 Bruszt and Stark (1991), op.cit., p. 243.

48 Bruszt and Stark (1991), op.cit., pp. 242-43.

49 See Ibid.; and, Ellen Comisso (1991a), op.cit.

50 See, for example, the Introduction, p. 3.

51 Eniko Tegyi (1991), "Business in Post-Communist Hungary," Budapest Week. October 3-9, 1991, p. 7.

52 On deteriorating living standards, see Gyorgy Balo

and Ivan Lipovecz, eds. (1991), Tenyek Konyvo. Budapest: Alfoldi Ryomda, pp. 19-20 and p. 613.

53 On anger over foreign sell-outs, see Eniko Tegyi (1991), op.cit.

54 Bruner (1991), op.cit., p. 7.

55 Janos Matyas Kovacs (1991), op.cit., p. 59.

56 See John Dunn (1984), op.cit.

57 As was noted, the maintenance of capitalist relations depends on cultural acceptance, not only on the reproduction of capitalist relations of production. The cultural acceptance of capitalism (and ideological dominance of liberalism) in the West is an important reason for its continuing strength.

58 Janos Kornai (1990), op.cit., pp. 181-82.

59 Ibid., pp. 190-1.

60 Janos Kornai (1980), op.cit., p. 150.

61 Kornai's analysis is limited. Arguably, there were more important reasons for the past failure of reform: primarily the centralized political structure in Hungary.

62 David Gordon, et al. (1990), "An Equality-Efficiency Trade-Off?", Dissent. Fall, 1990, p. 510.

63 See Ibid.

64 Orthodox economics has a sterilized conception of economics and the market. Simplifying assumptions and abstract theories suggest that economic relationships are obvious and straightforward. In reality, however, the conclusions of abstract economic theories typically are inapplicable or, at least, must be scrutinized carefully.

65 Erich W. Streissler (1991), "What Kind of Economic Liberalism May We Expect in 'Eastern Europe?'" East European Politics and Societies. Vol. 5, No. 1, p. 201.

66 On the importance of political limits to past reform attempts, see chapter two pp. 78-83.

CONCLUSION

1 "A Semi-Revolution" from Robert Frost's poem "A Semi-Revolution," in The Norton Introduction to Literature (1983). W.W. Norton And Company, Inc., p. 145.

2 Michael Ellman (1989), op.cit., p. 65.

3 Also, authoritarianism and capitalism, for instance, are not incompatible.

4 Ellen Commisso (1991a), op.cit., p. 26.

5 Richard W. Bruner (1991), op.cit., p. 7.

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