

POST-KADAR HUNGARY: Three Approaches to the Challenge of
Political and Economic Adjustment

by

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ABSTRACT

In May of 1988, Hungary experienced the most radical political shift since the revolution of 1956. Janos Kadar, the ruling figure in the Communist Party for more than thirty years, was driven from office. This work is an attempt to address the problem of political and economic adjustment for post-Kadar, post-Communist Hungary. The first approach involves a discussion of the government response to such changing conditions. The second approach involves a discussion of pressures from various groups advocating free market reforms. The third approach involves a discussion of the Budapest School and its attempt to evaluate Eastern Europe and Hungary based on the history of the region. Each school presents both useful solutions and problematic suggestions for Hungary. This work attempts to separate that which can be helpful for the problem of Hungarian adjustment from that which might harm the delicate position of a nation attempting political and economic stability in the years immediately following the events of 1988.

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INTRODUCTION:

Adjustment to changing domestic and international circumstances is a continuous challenge to all countries. I should like to call your attention to the Hungarian experience, and to some of its acute problems.¹

Recent domestic and international political decisions have drastically changed conditions in Hungary. Janos Kadar, the leader since the failed revolution in October of 1956, was deposed in May of 1988. His imprint on the political structure within the nation remains in the legacy of the New Economic Mechanism, a series of political and economic programs instituted in 1968 which maintain themselves in the structure of political and economic relations in Hungary today. The centripetal force of Gorbachev's Glasnost and Perestroika policies have resulted in the eventual withdrawal of Soviet forces from Hungary and the Hungarian secession from the Warsaw Pact and COMECON. The advent of the decade has been witness to the birth of a national stock exchange in 1990, increasing levels of private investment, and unemployment figures nearing two million. The challenge of adjustment to these substantial shifts involving the Hungarian state has been met with a great deal of confusion. Privatization of state industries and increased levels of private investment, foreign and domestic, has been the immediate reaction from many circles as the opportunity of tapping into Western markets on an unprecedented level has

been approached with enthusiasm. The response of dissidents from several camps is particularly vocal as a multitude of political and economic prescriptions have sprung from intellectual and analytic cliques demanding specific policy directions for the Magyar people. The state response in the form of the Hungarian Socialist Party has traditionally taken a cautious and compromising stand. Immediately following the collapse of the Kadar circle the Party attempted to "maintain control over the (political) situation in the time-honoured way, to assimilate ideas and phenomena alien to it and thereby to draw their sting".² With Kadar gone the Party could not remain stable enough to continue to rule and the Hungarian Democratic Forum and the opposition, Alliance of Free Democrats, became the two major political parties.

The fall of the Communist Party did not solve all of the problems inherited from the Kadar era and the New Economic Mechanism. The nation is left with a large national debt, balance of payments problems, inefficient state subsidized industries, oil and natural gas transport problems, black markets generating nearly one-third of all household incomes, income distribution inconsistencies, and many other problems.³

There is a confusion which stems from the nearly unmanageable amount of prescription, recommendation, and analysis, coupled with the variety of suggestions and solutions to be engaged by present-day Hungary. This is an analysis of three approaches to political and economic

adjustment in the post-Kadar era. The first criteria upon which this analysis rests is in the attempt to illustrate a clear definition of these schools based on Hungarian political and economic history. This means that Hungary will be treated as a separate entity from the Soviet Bloc and Eastern Europe. The second criteria will be to provide an assessment of how it is that these three approaches have addressed the problem of political and economic adjustment since the fall of the Kadar circle in 1988. In light of these considerations there are three main questions which this work seeks to address: How has the political situation developed since the fall of Kadar and how has the government addressed the changes in the nation?

Can free market rationalization and privatization solve the difficulties inherited from the Kadar regime?

Or is a mixed economy, as delineated by the Budapest School more appropriate for the particular situation faced by the Magyar people?

The work has been organized into four analytic sections including an explanatory chapter and three subsequent chapters, one for each school. This is followed by a conclusion and summary of the entire project. Chapter one is a discussion of the three schools of thought and how they are delineated. The Hungarian government, the free market advocates, and the Budapest School, respectively, have been treated as separate schools of thought in order to illustrate

various approaches to economic and political adjustment in the Hungarian nation. This is premised on the belief that there is a unique set of circumstances in Post-Kadar Hungary which are in need of attention.

In a discussion of possible solutions offered by the post-Kadar government, by the suggestions of free market reformers, and by the Radical Democracy of the Budapest School, there must be an evaluative counterpart to this descriptive element. For this project the evaluative component is Hungarian political and economic relations. Each school agrees on the point that the economy and the political structure is in need of much reform and must take a specific direction in order to achieve a stable society with a government which can, consequently, meet the various needs of the Magyar people.

In discussing specific economic conditions there are a number of issues which are assumed to be problematic. For example, a large national debt is assumed to be detrimental to the Hungarian economy in that large amounts of state funds are channelled toward loan payments rather than toward production or service sectors of the nation. The issue of a large national debt, to continue the example, presents itself as a problem which is in need of this attention and subsequent proposed solutions. There will be no discussion of whether or not a large national debt is detrimental to the Hungarian economy.

There is another necessary assumption which this project employs. It is the term 'post-Kadar'. This term is used to delineate a specific period in Hungarian political history and the economic situation accompanying it. Post-Kadar refers to the May 1988 exit of Janos Kadar as the leader of the nation after thirty-two years of rule. It is assumed that this is indicative of a significant historical moment which is the culmination of radically shifting forces in Eastern Europe in general and Hungary in particular. Just as the First and Second World Wars, the period of armistice between the two, and the post-World War Two Cold War illustrate periods in history with unique circumstances and characteristics for the political history of Europe, so is the case for Hungary. The end of the Second World War is witness to the Soviet occupation of Hungary until the Magyar people rise against their oppressors in October of 1956; the pre-Revolution phase of Hungarian political history. During the months of revolutionary turmoil and reestablishing of Soviet hegemony in the small central European nation Janos Kadar is able to begin his reign. He is the principal policy-maker for the following two decades and establishes a system of political and economic relations which remain at the time of writing. His exit from the political machine of the nation leaves Hungary with the system of political and economic relations outlined in the continuing policies of the New Economic Mechanism. This project assumes that such a change is significant enough to be

used as a historical point of departure to delineate a unique set of circumstances and it is here that the analysis begins.

CHAPTER ONE:**POST-KADAR HUNGARY: THREE APPROACHES TO THE CHALLENGE OF
POLITICAL AND ECONOMIC ADJUSTMENT****A THEORY OF STATE:**

There is a Hungarian joke which translates into the following question and answer in English: 'Who was the stupidest Magyar? Arpad, the founder of the nation, for if he had gone several hundred kilometres west we would all be living in Switzerland'. The joke is a humorous approach to an acceptance by the Magyar people that they are trapped between forces which are much greater than themselves; forces which in most cases are beyond their control. "What does it mean to be Hungarian? To quote the writer Tibor Dery 'A joke which dances over catastrophes' ".⁴

Janos Kadar fully supported the 1956 October Revolution until the Soviet tanks rolled through Budapest. After this point he achieved what is arguably the greatest feat of political engineering in Eastern Europe during the Cold War era. He established himself as the leader of the Hungarian Communist Party almost immediately after the revolt was crushed in the streets of the capital. For the following thirty-two years his 'goulash communism' mixed market reforms with Soviet-style centralization in an attempt to balance justification to the Soviet Union and self-determination for Hungary as a state. In short he compromised with the U.S.S.R. in order to maintain a certain degree of state autonomy.

The expression of autonomy changes significantly at the end of the 1980's for policy-makers in Hungary as the economic upheavals in the Soviet Union drastically reduce economic and political ties with Eastern Europe. The question of state autonomy is no longer addressed in terms of the 'dance over catastrophes' with the Soviet Union. Instead the debate has become ordered around the notion of becoming 'fully European' in terms of political and economic ties with the Western European world. With the fading of Soviet influence in Eastern Europe the ability of Hungarian policy-makers to assess independently the needs of their nation apart from the concerns of the U.S.S.R. has grown substantially. This does not necessarily mean that autonomy has been achieved as there is a concerted effort by Western capitalists to increase their influence in the Eastern European theatre. Hungary must still grapple with forces that have their own agendas which are in many cases separate from the agendas of Magyar policy-makers.

The question of state autonomy for Hungary still remains a debate. It has not been resolved and in some cases, as in Szitnyai's work Hol Van A Nemzet? (Where is the Nation?), there is a very pessimistic tone.⁵ The notion of trading one hegemony for another permeates the political culture of the nation and there are questions of the ability of the state to act creatively to meet the challenge of adjustment to changing times. There is a demand by politicians and policy-makers to continue in the quest to meet the challenge, however, and as

Szitnyai indicates in his work, it is necessary to continue in this time of unique opportunity. The opportunity lies in the drastic reduction of forced participation in the Cold War Soviet Bloc. The new compromise is the necessity to strike a balance between encroaching Western and European Community interests and those interests which serve the Hungarian state. Thus there is no offer of resolution regarding the question of state autonomy and this thesis will instead base itself on the assumption that Hungarian politicians, in responding to changing conditions, can act with some degree of autonomy and will try to do so for the good of the nation.

THREE APPROACHES: THE RESPONSE OF THE POST-KADAR GOVERNMENT, FREE MARKET PRESSURES, AND THE BUDAPEST SCHOOL

A Brief History of the Kadar Legacy:

The New Economic Mechanism was officially recognized as a group of government policies in on January 1, 1968. The local councils in the nation, which previously had functioned as agents of the central government, underwent a "process of devolution and decentralization...(and) with the introduction of the N.E.M. official emphasis shift(ed) to the transformation of local councils into more autonomous organs of self-government".⁶ The move toward localized decision-making processes continued as Kadar's policies undermined the Soviet style of centralization and protected the interests of consumers rather than focusing on macro-economic state

interests. Under the demand for justification by and for the Soviet Union, Kadar managed to build a buffer between the state bureaucracy and local interests. The state bureaucracy in Hungary was subject to direct contact and legitimation to the Soviet Union and Kadar sought to provide greater local autonomy and consumer protection through the N.E.M. The effect was a reduction in access to state channels by people other than the party elite thereby allowing for a process of modernization through relaxation of central control. Kovrig describes it as follows:

While the contemporary Hungarian system (was) far from being a model of participatory, let alone pluralist, democracy, the Kadar regime can take credit for having devised a symbiotic compromise between ideology and modernization.⁷

The introduction of market forces into the Hungarian economy is a process which continues to the present causing a steady climb and "notable improvement in the supply and variety of consumer goods and the standard of living".⁸ There are a number of negative effects as well.

The most negative economic aspect (is) the drastic deterioration of the balance of trade, caused mainly by the rapid growth in the import of Western technology and consumer goods, and the heavy burden of uncompleted investments.⁹

The Hungarian economy was geared toward meeting certain needs of the Soviet Union, principally as a window to Western

technology, and the inception of Glasnost and Perestroika have changed this reality of the Kadar era. Under Gorbachev the Soviet economy has increasingly weakened ties with Eastern Europe causing radical shifts in the Hungarian trade balance and the supply and demand relationship on domestic and foreign markets.

The vehicle for change and reform was found in the system of relations left by the policies of the N.E.M. The lack of access to state channels in Hungary manifested itself in a number of ways. The resentful immobility of workers, for example, created a set of values known as the work culture with the 'you pretend to pay us, we pretend to work' attitude which translates into the continual increase in black market activity. The system of relations between the workers and the state established by the N.E.M. remains until Kadar's departure in 1988 and the governing parties that followed the May 1988 upheaval have grappled with these inherited problems. Proposals which address political and economic reform thus need to grapple with the value system of workers in Hungary.

Kadar's attempt to modernize through protecting consumer interests and rationalizing domestic trade at the local micro-economic level encouraged privatization and private investment in Hungary by increasing degrees until his 1988 exit. This remains a highly contentious issue as the economic structure of the nation provides fertile ground for privatization and there are domestic and international political pressures

greatly in favour of private investment. Eastern and Western analysts have repeatedly attempted to demonstrate the need for increasing capital flow into the nation. The European Bank for Reconstruction and Development was created specifically for the purposes of initiating and supporting free market construction in Eastern Europe. The N.E.M. provides itself with a ceiling on such investment in the macro-economic orientation toward the Soviet Union. With Kadar's removal from office and Hungary's departure from COMECON this is no longer the case. The lack of such limits are further demonstrations of a number of drastic shifts in Hungarian economic relations and sets the stage for the question of how such changes can be addressed.

THE FIRST APPROACH: The Post-Kadar Hungarian Government Response

This chapter discusses the fall of the Kadar circle, the transition to multi-party democracy and the shaping of a new system of political and economic relations in Hungary. There will also be an evaluation of the structure and composition of ruling elites and party cadres under the Kadar regime and how, if at all, these groups have transformed themselves during the post-Kadar period.

Andras Bozoki provides a comprehensive discussion of post-Kadar political trends in the nation. His work "Post-Communist Transition: Political Tendencies in Hungary" serves

as an excellent description of political and economic policies during the period from May of 1988 to the end of 1990. Official sources such as Statisztikai Havi Kozlemenyek (Monthly Statistics Report) published by the Kozponti Statisztikai Hivatal (Central Statistics Office) continue to function as the main source of the major economic indicators such as G.N.P., foreign trade balance, domestic credit, household income, etc. The news media is considered as a similar source in that newspapers, in general, have gradually become increasingly less accountable to the governing party. The Daily News is published in English (and German) and a number of daily papers are good sources of government reaction, sentiment and in some cases intention. The Problems of Communism and East European Politics and Societies periodicals are also very helpful in tracking political and economic change in Hungary.

The course of state reaction and the response to changing conditions in the nation can be effectively gauged through this literature. As is the case with the two following approaches there is a caveat to their respective conditions. The assumptions of the Budapest School and the free market literature lend themselves to particular types of solutions and reactions to the question of Hungarian political and economic adjustment. Similarly, the assumptions of the political parties lend themselves to certain types of proposals. For example, A Society in the Making is a work by

Z. Fege which employs the use of some of the official sources mentioned above and concludes that while Soviet Marxism is certainly a more advanced phase of social development than capitalism, the development of Hungarian society has not reached a mature phase of Marxism. Her conclusions effectively constrain policy recommendations within the confines of the prevailing ideology at the time of writing.

Another example of such constraints is illustrated through a discussion of the composition of the ruling elite in the nation. The number of individuals within the political structure who have changed or left their positions of authority indicates whether the system is undergoing a type of power shift or transformation in the post-Kadar era. An excellent description of the Kadarist cadres and the movement of these elites after May of 1988 is described in Tokes' article entitled "Hungary's New Political Elites: Adaptation and Change, 1989-90".

The chapter discussing the post-Kadar government response to changing conditions ends with a section discussing possible futures for the nation, political and economic recommendations from government officials, and potential direction of the political parties prevalent in Hungary at the end of the year of 1990.

THE SECOND APPROACH: Free Market Pressures

The most vocal of camps in post-Kadar Hungary have been

the free market or privatization advocates. A large amount of literature has been published surrounding the issue of private investment in the nation; much of which is highly favourable toward such capital influx. Domestic and international pressure to privatize state-owned industries and encourage private investment from within the nation and abroad has been simply enormous. The guidelines of the European Bank for Reconstruction and Development are similar to those of its international counterpart which has ruined the economies of a majority of South American and Latin American countries. In the rush to gain greater access to the commodity markets of the European Community and the United States, Eastern Europe in general and Hungary in particular have become subject to similar pressures, and so economic restructuring has begun in the region. Poland has adopted what is referred to as 'shock therapy' in allowing virtually unregulated private investment.¹⁰ In 1990, Hungary opened the first stock market in the former Eastern Bloc and the Poles follow their lead on the sixteenth of April in 1991 indicating the beginnings of Westernization of the economy.

The acceptance of a free market economy rests on the assumption that the Hungarian economic situation will become more efficient if wages and prices are determined in conjunction with the Western market system. Recent papers at the International Studies Association Convention in March of 1991 in Vancouver are symptomatic of this feeling. A paper by

Cole entitled "Political Effects of Marketization in Eastern Europe",¹¹ for example, addresses the issue of free market reforms in the region in the decade of the nineties and concludes that in order to continue with the political liberalization trend in Eastern Europe, free markets must be established. In similar fashion, Foldes considers "Economic Reorientation of Eastern Europe: The Case of Hungary"¹² and illustrates the need to solve economic problems by encouraging private investment and rationalizing the Hungarian economy toward Western markets.

This literature is very useful in outlining the economic disparities between Eastern and Western European markets. The Hungarian situation illustrates a definite need for economic reform, as there are a number of serious problems in meeting the needs of the nation. However, privatization and free market advocates operate on the assumption that political and economic reforms are inseparable. The assumption is that,

Privatization is both a means and an end.
For pragmatists who want better government
and for populists who seek a better society
...better in that society's needs are
satisfied more efficiently, effectively and
equitably...privatization is a means
toward those ends.¹³

For these analysts, privatization and free market solutions are prescribed from a Western point of view in which it is thought to produce political liberalization and economic efficiency. The extension of their argument is that the problems in Eastern Europe can be solved through this kind of

economic reform. This is not the case in Hungary, unfortunately, as the Kadar era increases levels of privatization while correspondingly decreasing access to political institutions. The N.E.M. brings relative prosperity to Hungary in the form of privatization while depoliticizing the nation. The call for rationalization of wages and prices on the Western marketplace does not take into account the specific problems endemic to the Magyar people in the post-Kadar era. Thus a more rigorous analysis of the effects of free market reforms in the nation is necessary.

THE THIRD APPROACH: The Budapest School

The Radical Democracy of the Budapest School provides a unique solution. A group of Hungarian dissidents, most of whom are disciples of Lukacs, advocate a mixed economy. The method by which the Budapest School seeks to achieve a mixed economy involves an assessment of the Hungarian situation with an emphasis on the movement of grounding. This means that, unlike privatization advocates, the main assumption is that of the continual motion of assumptions. The Kadarist Hungarian Socialist Workers Party assumed socialism to be a more advanced phase of capitalism and free market analysts assume that political liberalization necessitates an inception of the entrepreneurial spirit through private investment. The Budapest School claims that neither of these assumptions is necessary in providing solutions to particular problems faced

by the state, and it leads to the conclusion that a mixed economy is the most sensible approach.

Reminiscent of Sartrean Marxism and existential humanism, the Budapest School encounters similar problems. It is an important and useful development in the field of Hungarian analysis in that there is an attempt to place certain problems faced by the nation in a specifically Hungarian context. Existential humanism faces the problem of denying itself much the same way as the Budapest School, in that there is a demand, an almost unconditional one, to place emphasis on the praxis of political decisions in order to allow for the freedom of political action without the hindrance of justification to a prevailing set of ideological considerations. In the tradition of Lukacs the concerns of these thinkers revolve around large abstract concepts of freedom, justice and equal self-determination. This can be problematic when considering political and economic policy reforms.

The Budapest School does have specific recommendations for such reform, however, and these prescriptions are consistent with a mixed economy. They seek to democratize the workplace in Eastern Europe in general and Hungary in particular. From this democratization will come the eventual realization of greater degrees of participation in the decision-making processes of everyday existence in region. A simplified version of their philosophy would consist of

applying the positive aspects of capitalist society, for example the large productive capability, and the positive aspects of socialist society, for example the state guaranteeing rights and freedoms through social regulation and economic 'safety nets', to post-Communist Eastern Europe. This can be done through such reforms as localized units of production, multi-party voting structures, and government guarantees for the safety and social stability of the constituency.

The need for political and economic reform in Eastern Europe is recognized by the post-Kadar government, the Budapest School and also by free market advocates. The Budapest School, however, takes this recognition in a different direction.

CONCLUSIONS:

This project is an examination of three approaches which discuss the problem of Hungarian political and economic adjustment in the post-Kadar era. This is a period which began in May of 1988 when the ruling Hungarian Socialist Workers Party, under the leadership of Janos Kadar, completed a process of political dissolution begun several years earlier. The fall of the Kadar circle presented itself as a unique opportunity for political and economic reform. This thesis addresses issues of reform through three possible responses.

Government activity in the post-Kadar era is the focus of the second chapter. In this section there is a discussion of the Kadar regime, the fall of the Kadar circle and the transition phase toward multi-party democracy, the attempt at restructuring of political and economic relations, and alternative futures during post-Kadar post-communist Hungary. This chapter tracks the movement of Hungarian politics in the post-Kadar era until the end of 1990. The chapter concludes with an illustration of potential political trends and economic reforms in the decade of the 1990's. The political and economic reforms instituted by the post-Kadar government have been attempts to maintain stability in the nation rather than effect a radical restructuring.

Free market pressures which are based on an understanding of the values of workers in the nation as expressed in a work culture, those based on the assumption that free markets are more efficient in Western political and economic systems and therefore must also be as efficient in Eastern Europe, and those based on the assumption that post-Kadar Hungary must necessarily emerge with a capitalist system controlling economic and political relations in the nation, are discussed in Chapter Three. The evidence indicates that Western ambivalence can produce a misreading of the work culture, that efficiency means different things for Hungary than it does for Western nations, and that the recognition of these free market pressures by Hungarian analysts has addressed the question of

what form of capitalism will emerge in the nation.

The Budapest School is an attempt to define the situation of Eastern European states on their own historical foundation. These thinkers have long awaited a post-Communist condition for Hungary. This prescription is derived from the critique of both modern capitalist and modern socialist states. This is very significant for Hungary as there are no other similar attempts to approach Hungarian political and economic history in this manner. The Budapest School concludes with the recommendation for a democratization of economic and political relations on all levels. These thinkers suggest the possibility of such reform through governmental activity.

None of the three approaches constitute complete solutions in themselves. Each of them has a number of positive and negative aspects and a number of points which are both helpful and detrimental. It is the task here to delineate these features in order to understand how each approach can be of some value in the post-Kadar post-Communist era. The fifth and final chapter will elaborate these aspects in greater detail after a more complete examination of the evidence.

CHAPTER TWO:

1988-1990: POST-KADAR, POST-COMMUNIST POLITICAL DEVELOPMENTS

INTRODUCTION:

This section, Chapter Two, discusses the political and economic structure which Kadar formed during his years in power, the events which immediately led up to Kadar's demise in May of 1988, and the political activity and structural shifts which occurred in the two and a half years following the historic May departure. This is a confusing period in Hungarian political history as alliances change almost on a daily basis and elites battle for a foothold in the emerging government. During this time of great flux, the Hungarian government continues to navigate a middle ground and attempts to avoid politically radical approaches.

THE KADAR LEGACY:

The policies of Janos Kadar and the ruling elite were never in line with Stalinist Soviet political tendencies. The Hungarian populace was never subjected to a political system based on terror. Post-1956 revolutionary Hungary left Kadar with a set of objectives which included:

reorganiz(ing) the communist party that had fallen apart in the revolution, break(ing) down the resistance of the population, end(ing) the general strike, and liquidat(ing) the institutions that the revolution had generated.¹⁴

His strategy of "depoliticizing society and keeping it docile

through economic concessions"¹⁵ included a mandate to maintain a monopoly of power which was not absolutist. The New Economic Mechanism became the official embodiment of the Kadar agenda. The Hungarian condition was "much admired by those in the West who entirely failed to understand the true nature of the system".¹⁶ This system "provided opportunity for pragmatism... and created just enough social space for different groups to find satisfaction".¹⁷ This was a product of giving the governing communist party elite the ability to exercise power without fixed criteria through the N.E.M. The result was a series of concessions to various groups without transforming those concessions into rights.

In essence Kadar followed Khrushchev's policy and "remained loyal even after Khrushchevism was abandoned in the Soviet Union".¹⁸ This means that the Kadar regime attempted to maintain a "paternal dictatorship... supporting a higher standard of living and increased consumption while doing its best to isolate social conflicts".¹⁹ The cost of maintaining such a system of political and economic relations was realized as "the country became poor, burdened by international debts, while the Kadar regime lost its credibility".²⁰

The middle class intelligentsia was created through the inception of Kadar's system of political and economic relations. The regime, however, continually refused to allow for access to political power and "input into economic decision-making"²¹ The Hungarian government's "decision to

embark on the path of economic reforms was motivated by short-term needs for political stability and economic progress" as well as by "long-term needs to ensure the survival of the system".²² The hiring and promotion practices by the government under Kadar was notorious for emphasizing party loyalty and ignoring talent. Growing discontent with the inefficiency and lack of productivity and imagination within such a system led to decreasing levels of popularity of the Hungarian Socialist Party in the 1980's.

The regimes 40-year record of **kontraszelekcio** (policies of personal selection rewarding political loyalty at the expense of expertise) and the penalizing of merit were the principal motivations behind the middle-class intelligentsia's involvement in politics and it's leadership role in hastening the demise of the Kadar regime.²³

THE FALL AND THE TRANSITION:

The Hungarian Democratic Forum was established in September of 1987 capturing the imagination of a large number of Hungarians based on its Democratic Populist policies. The platform was based on a mixed economy, multi-party governmental system, and direct democracy. Such populist political currents were witness to the rapidly changing Hungarian political scene. Schopflin writes, "By the early months of 1988, the tight control by the party over intellectual opinion was a thing of the past, and independent intellectual groups began to proliferate".²⁴ Political and

social criticism was allowed to grow to a point at which the news media and intellectual circles enjoyed almost complete freedom of expression. The breakdown of the Kadarist circle of power had begun.

By the spring of 1988, the situation in Hungary was widely described as fluid and decaying. The party leadership, above all Kadar, himself, had no response to offer except to make threatening noises. In effect, the leadership was not leading, and the ferment in intellectual life was beginning to influence the party membership.²⁵

As a result in May of 1988 a party conference was forced to convene. During such a conference all party bodies must be represented and anti-Kadarist forces used the gathering to apply pressure and drive him from office. The regimes inability to maintain power was a result of two main factors. The Soviet threat continued to decrease as the decade grew to a close and the immediate effect of a long-silent mass opposition was an explosion of criticism.

The direct political consequence of the ousting of Kadar was standstill. The new leadership under Karoly Grosz "turned out to be much weaker and more divided than expected" and Grosz "essentially looked toward some kind of an authoritarian model combining economic efficiency with high levels of coercion".²⁶ The immediate economic goal was to induce forced savings and encourage foreign investment. The party reformers led by Imre Poszgay, by contrast, were increasingly attracted to more open, democratic system. This

resulted in the temporary deadlock experienced just after Kadar was forced to leave the center of political activity in the country.

In the summer of 1988 "Grosz was essentially immobile... while Poszgay permitted the news media to widen their already extensive freedom to comment and criticize".²⁷ Schopflin contends that a critical period occurred during the time between the beginning of September 1988 and the end of November 1988. "With a more determined leadership, the communists might just have been able to seize the agenda and push through a reform program "of their own, but, "by the end of November, it was too late".²⁸ During those few months,

Hungarian society became aware of the weakness of communist rule and of its own mounting political weight... In the past, the hardliners had always been able to quash criticism at home by invoking Soviet disapproval. The pretext for doing nothing evaporated as Mikhail Gorbachev's reform program progressed.²⁹

By the end of November of the same year "overtly political organizations began to spring up, and Hungary began to take on the appearance of a multiparty system".³⁰ In December the Alliance of Free Democrats was established as the opposition and the nostalgia parties come back to the political fray ("the Independent Smallholders and the Social Democrats, who had taken part in the post-1945 coalition and had been briefly revived in 1956"³¹). Various factions of many different parties emerged and alliances were made and broken at a rapid pace. The political scene at this time was

chaotic.

Inside the communist party the reformers argued that political and economic change must occur immediately. This dramatic change would work "only if pluralism was instituted; otherwise, Hungarian society would not accept the authority of the political leadership, and hence the people's energies could not be mobilized"³². At this point the collapse of the Hungarian Socialist Workers Party appeared to be only a matter of time. "Party hard-liners disliked this message, but were stripped of all counterarguments by their fear of popular upheaval a la 1956 and by their lack of an intellectually viable alternative strategy".³³ The H.S.W.P. was left with little in the way of alternatives. The Soviet threat was gone and political parties were emerging from all directions demanding immediate political and economic reforms. Their reaction was an attempt "to maintain control over the situation in the time-honoured way, to assimilate ideas and phenomena alien to... (the party) and thereby to draw their sting".³⁴

This is one of the main reasons behind the decision to allow the March 15, 1989 celebration of a covert national holiday. This date marks a national revolution which occurred in Buda and Pest in 1848 and it's recognition was "something that small groups from the opposition had been doing unofficially for years".³⁵ An important coincidence was about to spur the dissolution of the ruling party as "the

preparations for the ceremonial reinternment of Imre Nagy and his collaborators came on the agenda at more or less the same time."³⁶ The ceremony was held on June 16 and illustrated the end of the legitimacy of the party as only ruling entity. The party was thus faced with the direct acceptance of declining and eventually collapsing legitimacy.

The Round Table discussions in the summer of 1989 marked the first public multi-party political debates since the brief illumination in 1956. The party began negotiating with the "diverse opposition parties as well as other traditionally communist-run social organizations... to work out the method of handing over power and to construct a new political system".³⁷

These plans and blueprints for a new system of political relations had been happening for several months. In fact, "work on drafting a new constitution had been going on for some time in the Ministry of Justice".³⁸ The actual decision was made at these discussions as "the political sanction for the transformation came from the round-table agreement in September".³⁹

On October 23, the anniversary of the 1956 revolution, Acting President Matyas Szuros "formally declared Hungary to be a 'Republic' and no longer a 'People's Republic'".⁴⁰ This meant that the rule of the H.S.W.P. was officially over. Two days later Gorbachev, while attending a conference in Finland stated that "we (the Soviet Union) have no right, moral or

political right, to interfere in the events happening there".⁴¹ Official Soviet reaction solidified "the complete collapse of the party-state (and) of the communist system in its entirety".⁴²

POST-KADAR DEVELOPMENTS:

Shaping the New System:

The replacement for the communist party-state was put together "in some haste and through a series of last-minute deals during the round-table negotiations of the Summer of 1989".⁴³ This was done at a time when "the opposition groups represented at the table still assumed that the communists would continue to be a major force in politics".⁴⁴ A strong unicameral parliament and a constitutional court were established "to assure control over the communist government apparatus".⁴⁵ The office of the president "was weak, largely ceremonial, although individual incumbents might be influential behind the scenes".⁴⁶ The strong parliament was subject to certain checks by a new institution of a referendum. Issues could be brought before the parliament if there were at least 100,000 signatures. Legislation requires a fifty percent turnout to make the results of a referendum valid and there was one held on July 29 1990. "The attempt by the Hungarian Socialist Party... to organize a referendum on the mode of electing the president turned out to be a complete fiasco, with the turnout of only 14 percent".⁴⁷

Hungary experienced a campaign to elect the new National Assembly during the period between November 1989 and March 1990. The main competitors were the Hungarian Democratic Forum (H.D.F.) and the Alliance of Free Democrats (A.F.D.). The Free Democrats "discovered that they could apparently widen their appeal by offering the voters a radical anti-communist program based on the rapid introduction of a market system" while "this party also included a strong Social Democratic element that stressed social protectionism".⁴⁸ This was an internal contradiction within the Alliance of Free Democrats and it was doubtful that a reconciliation was immediately possible. This would lead to problems in the coming months. The A.F.D. "largely reflecting the views of provincial, small-town, middle-class and petty-entrepreneurial elements"⁴⁹ as well as Christian Democratic supporters had to contend with its radical populist supporters. The Hungarian Democratic Forum won the elections. The Free Democrats were leading in the early polls and were well received during the first round of voting. Jozsef Antall the leader of the H.D. Forum was responsible for the International Smallholders Party and the Christian Democratic People's Party joining his party in a coalition resulting in the government garnering a majority of 229 seats from a total of 386 in parliament. The Forum won "essentially for two reasons; Hungarian opinion was impressed by its call for moderation and, equally, was unimpressed by the Alliance of Free

Democrats' promise of radical change"⁵⁰ in the form of rapid free market reforms. The victory "reflected caution about the future and a fear that the self-confidence projected by the A.F.D. would bring about an unacceptable upheaval".⁵¹ For most Hungarians "the election was decided largely on bread-and-butter issues--i.e. who looked capable of leading the country back to Europe".⁵²

May of 1990 was an important month for nation. The Second of May illustrates a surprising compromise between the H.D.F. and the F.D.A. The deal was made public at the first meeting of the parliament on this date and was published in it's entirety the following day, the Third of May 1990, in the daily Nepszabadsag. The agreement involved a series of concerns regarding political procedure and social issues. It was agreed that the president is to be elected by parliament for a four year term and the inaugural position was to be held by Arpad Goncz of the Free Democrats. The agreement also stated that there was to be ten permanent and five special committee members of parliament, an independent body supervising radio and television established, and a two-thirds parliamentary majority necessary for basic laws affecting the system. Antall was the Prime Minister-Designate since he was the

leader of the largest party. The political compact reflected the efforts... to feel their way rather gently into the new political system, a system that was untried and in the hands of individuals relatively inexperienced in democratic politics.⁵³

The May 16 announced government was dominated by Antall's Christian Democrats and not the radical populist faction dominating the other half of the Forum. Eight portfolios went to the Forum including ministries of the Interior, Foreign Affairs and Defense. Three portfolios went to the Smallholders party. Three portfolios go to Independents including the ministries of finance and foreign trade.⁵⁴ The general agenda of the government was outlined by Antal as he stated that the "government would pursue a policy of introducing an all-encompassing marketizing reform, whereby the share of the state in the economy would decrease from 80 percent to an eventual 20 percent".⁵⁵ Hungary "would invite foreign capital to participate in the privatization, which would be gradual rather than sudden".⁵⁶

A government statement was issued on May 22, 1990 which was "more a statement of general principles than a detailed, step-by-step blueprint for change".⁵⁷ Four basic principles were outlined. The first stated that the government intended to pursue a strategy of affording individuals the opportunity to realize their ambitions and exercise their initiative through freedom, rule of law, and a restoration of freedom of enterprise. It would be a government of the entire people and would look to wind up the remnants of the previous regime. The second outlined the premise that the state was seen as an enabling body rather than a repressive one. The third discussed economic transformation. The government was "aware

that the worst lay ahead... (and) it undertook to make a serious assessment of the situation and to seek remedies within the framework of a social market economy".⁵⁸ A concept that included social safety nets and protection of the environment. The fourth principle involved the return to Europe as a main consideration for the foreign affairs department and other cultural and social implications as well.

Current Political Trends:

Andras Bozoki discusses the post-Kadar post-communist political trends in Hungary in his article entitled "Post-Communist Transition: Political Tendencies in Hungary" in the Spring 1990 issue of East European Politics and Societies. His argument and series of classifications rests on the 'left-center- right' spectrum of political definition. The terms 'left' and 'right' are used "in their ordinary (political) sense" in that

the left supports government interventions in social life and has faith in the possibility of progress..., in democracies wants the same or even more government intervention..., society is based on natural law...; and in anti-democratic systems the extreme left may strive for ideologically-justified totalitarian rule.⁵⁹

The 'right' "believes in organic change and respect for tradition and authority..., calls for less... government intervention..., and (the idea that) society is based on... history and religion".⁶⁰ In an anti-democratic system "the

rule of the extreme right may result in racial, ethnic, or national discrimination".⁶¹ Characteristics of such extremist political forces, on the right and the left, have "almost completely disappeared"⁶² in Hungary. Bozoki assumes this to be indicative of "democratic progress"⁶³ in that more rational forces have come to the political fore providing fertile ground for solutions to Hungary's political and economic problems.

It is from this assumption that Bozoki defines his political spectrum of Hungarian party politics in the emerging post-communist era. His seven groupings are as follows: Leftist Conservatives, Conformist Technocrats and Pragmatists, Democratic Socialists and Reform-Communists, Social Democrats, Radicals and Liberals, Democratic Populists, and Populist Conservatives, from reactionary leftists to the extreme right-wing respectively. These delineations are constantly changing and support for various parties and ideologies has been in a state of flux. Bozoki's article has been updated to include documentation of these changes until the end of 1990.

The first group, furthest to the left in Bozoki's spectrum, is referred to as the Leftist Conservative faction. They are represented by what are termed conservative-Bolshevik forces which means they seek to remain in COMECON and the Warsaw Pact Alliance while maintaining the Kadarist Communist system. They believe that solutions to Hungarian political and economic problems lie in the centralization of power and

"their model is Leninist-Stalinist i.e., a centralized, planned economy, a one party system in which the autonomy of bourgeois society is replaced with central control and mobilization".⁶⁴

The second group is the Conformist Technocrats and Pragmatists. They are partially represented by members of the revamped Hungarian Socialist Party, formerly the Kadarist Hungarian Socialist Workers Party. This party is interested in maintaining power through economic concessions in much the same manner as their predecessors. They are a small group of Conservatives who seek to, above all else, remain at the center of political and economic activity in the nation. They are distinguished from the hard-line first group in that the Conformist Technocrats and Pragmatists are willing to acknowledge other forces and grant them concessions in order to remain in the elite political and economic body of the nation. Thus, according to Bozoki, they will accept reforms of the non-restructuring kind and could also live with a return to dictatorial policies if it meant a maintenance of their elite status.

The third group is the Democratic Socialists and the Reform Communists, some of whom are represented by the new H.S.P. The Union for Leftist Alternative is a supporter as well. These politicians advocate "a limited multi-party system, a socialist mixed economy, local self-government, a socialization of institutions and a form of non-statist

socialism".⁶⁵ The most unique feature of this group is their belief in social solidarity as being more important than economic efficiency. This means that the form of democracy is not as important as the content. "They do not want a democracy limited to the politics of consent, but rather democracy realized in worker's councils, cooperatives, and local self-government, for the development of mankind".⁶⁶ They look to the early writing of Marx, non-Marxist and non-statist versions of Socialism to provide theoretical and ideological justification.⁶⁷ This group is politically closest of those listed here to the Budapest School discussed in Chapter Four.

The fourth group is the Social Democrats "who are living in a state of schizophrenia".⁶⁸ This group believes in a welfare state with a "multiparty system, mixed economy, and strong compensatory social policy".⁶⁹ There is a division within the social democrats as one faction seeks to maintain traditional socialist principles in the workplace by representing themselves as trade union 'lobbyists and supporters. The other faction seeks to build a party platform on a Western style of liberal democratic politics in the rejection of Marxist principles through the creation of "social equality and justice in a capitalist society".⁷⁰ Both factions believe in a mixed economy but they emphasize different aspects in that the one side demands an antagonistic relationship between workers and the government, and the other

seeks a Western-style democratic populist approach not unlike the Canadian New Democratic Party.

The fifth group is known as the radical and liberal democrats. This group demands a focus on human rights issues and rejects the idea of a 'third way' compromise between the economies of socialism and capitalism. They recommend that Hungary "try to catch up with Europe and accept the Western value system in Hungarian political and economic institutions".⁷¹ Their economic policies are closest to the free market analyses in Chapter Three. They differ in that radical democratic factions have repeatedly called for greater representation of minority, Gypsies, Jews, and resident Romanians, than have liberal democrats and the free market advocates discussed in the third chapter.

The sixth group is the Democratic Populists who are advocates of the 'third way'. They accept market economies with certain state controls which would help to create a 'Garden Hungary'. "Their ideal is a... country of co-operatives, small landowners, and workers' councils--a society of communities".⁷²

The seventh group is the Populist Conservatives. This group consists of members who view the Hungarian nation as a moral unit. The imperatives of "God, Family, Country"⁷³ rule this right-wing faction. For them, "the present crisis is not economic or political, but the (result of the) collapse of the Hungarian moral character."⁷⁴ They have little

political clout in Hungary.

POSSIBLE FUTURES:

Elite transformation in post-Kadar post-communist Hungary is not progressing at a rapid pace. The Central Intelligence Agency Directory of Hungarian Officials (July 1990) states that one in seven old **nomenklatura** positions have new members since the Antall government came to power in May of 1990.⁷⁵ An article by Endre Babus entitled "300 Years of Time Served" in Heti Vilaggazdasag indicates that "of the newly appointed 71 sub-cabinet level secretaries of state, 29 had served for a total of 300 years under the Nemeth government and its predecessors".⁷⁶ It is estimated that of the 5000 to 7500 of the old top nomenklatura positions, only "several hundred national- and regional-level executive positions have been filled with new appointees".⁷⁷ The radical changes in the structure of governing elites called for by many of the parties in the post-Kadar parliament are not happening.

There are two main constraints to such restructuring according to Tokes. The first involves systemic constraints embodied in the "staggering economic burden and the legacy of public distrust in political authorities that the new government and parliament inherited from the previous regime".⁷⁸ The second involves situational constraints which involve "several specifically Hungarian conditions that tend to inhibit the new governments ability to deliver in full on

its campaign promises".⁷⁹

The second set of constraints involves an interesting set of conditions which emphasize the unique character of Hungarian politics. Consider, for example, the attempt by the Kadar regime to move old elites from office. In 1985 the Hungarian Socialist Workers Party instituted a token vote for the populace in order to get rid of old party apparatchiks by "having them run against and be soundly defeated by the younger and better qualified favorite sons of several communities".⁸⁰ The May 1988 H.S.W.P. conference discussed above resulted in "the replacement of one-third of the Kadarist Central Committee and speeded up early retirement of many scores of party apparatchiks".⁸¹

The mechanisms for political change in Hungary are slow but they are indeed present. This is a result of communication among several elite factions, those being communist reformers, non-party elites and leaders of opposition parties, who have been in communication with each other from the middle of the 1980's. "These consultations yielded tactical alliances that unseated Karoly Grosz and discredited the political authority of the party apparatus".⁸² The National Roundtable discussions and the continued regularity of contact among competing factions aided in making negotiation "the method of choice for crisis between the outgoing government and the ascendent opposition parties".⁸³ The result was a lack of "post-transition

retaliation against former party members."⁸⁴ These party members were laterally transferred out of the government bureaucracy into white-collar positions in various industrial sectors.

There has been a twofold problem with such power sharing strategies, however, in the autonomy of several groups. The first set of groups involves the "writers', the artists', and the journalists' unions, the Academy of Sciences, the universities and colleges, and the media."⁸⁵ These groups have resisted change from outside pressures through relaxed demands to justify themselves to the Communist Party. They have been able to maintain illegal and unethical professional practices under the banner of democratically guaranteed freedoms. The second set of groups involves the "Trade Union Federation, the 'red barons' business association (the Hungarian Chamber of Commerce, the National Assembly of Entrepreneurs, etc.), the state farms, and the old-line agricultural cooperatives' associations."⁸⁶ These groups are virtually untouchable and have managed to hold on to "ill-gotten cash and real estate assets"⁸⁷ under the name of democracy and freedom.

There are three possibilities that may occur in light of these specifically Hungarian conditions according to Bozoki. The first is a "conservative counterattack, reviving the past--generally called a 'restoration'".⁸⁸ This is highly unlikely for the Hungarian case as the numbers supporting the

conservative factions are limited. Given these limited amounts of supporters it would be safe to assume that such a revival would need external backing. The Soviet Union may have done so in the past but given the present condition of the crumbling federation this is extremely unlikely. The second is a "reform dictatorship, using the South Korean or Turkish models of economic revision without political reform".⁸⁹ This is more likely in terms of continuing the Kadarist tradition of economic concessions while sacrificing political reform. In replacing Kadar, Grosz attempted a similar model of political and economic relations in Hungary. The South Korean 'miracle' did not occur and Grosz was ousted mainly because Hungarian politicians were not willing to sacrifice politically to ensure competitive economic advantages. The South Korean model is not a viable alternative for Hungary as is discussed in the third section of Chapter Three.

The third is a "radical reform consistently achieved by a democratic movement, which may result in changing the system".⁹⁰ This is also possible but it requires a great deal of effort on the part of large numbers of the intelligentsia and party cadres. There has been some movement in this direction as evidenced by the above discussion of former elites. It has been a very slow process in post-Kadar Hungary, however, and the question arises as to whether or not Magyarország will be able to achieve its primary goal of

European integration if the pace continues as it has in the past.

CONCLUSION:

This having been said, certainly the present East European political scene quite clearly yearns for new theories that ought to be able to respond to and account for an extremely "hybrid" transformation.⁹¹

The Hungarian situation is very confusing. The sheer number of emerging political factions and parties in the post-Kadar era makes cohesive policy reform very difficult. An attempt to restructure the political and economic system must deal with the legacy of Kadarist policies of the N.E.M. This appears in many forms; one of which is an entrenched intelligentsia. It is heartening that the possibility for change exists, however slow it may be. It is also encouraging that there are a few attempts at new theories. Hopefully future solutions can be found there.

The following chapters discuss two such alternatives for the post-Kadar era. In Chapter Three the prescriptions of the free market advocates will be discussed and in Chapter Four the Budapest School alternative will be examined. Each of these is slightly to the right and the left respectively in Bozoki's spectrum. It remains to be seen whether such slight shifts from the middle road of the post-Kadar conciliatory stance can be useful for Hungarian policy-makers.

CHAPTER THREE:

PRIVATE INVESTMENT AND FREE MARKET PRESSURES

INTRODUCTION:

"At the root of Western attitudes toward Eastern Europe there is an absence of focus and a lack of passion about what is at stake there"⁹² writes K. Dawisha in her work Eastern Europe, Gorbachev and Reform. She discusses the idea that in many instances analysts who have studied the region rely too heavily on policies which have worked in their own countries in the past. For example the notion that the 'entrepreneurial spirit' has long been dead in the Eastern Bloc and the necessity of imposing a free market system of economic relations in order to revive productivity and create efficiency has been a powerful message in the post-Kadar era in Hungary. The European Community and the Western nations have adopted a strategy which seeks to continue to change the economic structure of Eastern Europe. The fifteenth of April, 1991, marks the inauguration of the European Bank for Reconstruction and Development which has been "entrusted with rebuilding Eastern Europe's tattered economies"⁹³. Unfortunately, the priorities of such organizations involve "shaping the world along Western lines"⁹⁴, rather than attempting to discover the regionally specific needs of the recipients of such capital infusion. These types of generalizations can fail to address some of the problems in Eastern Europe.

This chapter is a discussion of three types of free market pressures recently experienced by Hungary. The first involves an assessment of what some analysts have termed the "work culture".⁹⁵ Dawisha and Gati, for example, discuss Eastern Europe with the understanding that there exists a system of beliefs and values brought about and nurtured during the Cold War era. In a paper entitled "Political Effects of Marketization in Eastern Europe" Constance Cole defines the work culture as the "value system developed during the Communist years".⁹⁶ An assessment of this value system is the focus of the first section of this chapter. The East European work culture has often been cited by scholars as being detrimental to the production of commodities and the creation of industry in the region.⁹⁷ The argument is that there is a set of values in the region which undermines attempts by governments to create entrepreneurial activity through free market reforms. The idea of worker mobility is another factor in that it is expected that there will be a large amount of people in various work sectors leaving their respective nations in order to better their earning potential in the Western European workforce as restrictions on mobility are lifted in post-Communist Eastern Europe.

This is correct in many cases but not in the Hungarian case. Albania, East Germany, and Estonia for example are presently experiencing great difficulties with vast amounts of their respective populations leaving for greener economic

pastures in their Western neighbours' lands. Hungary, however, is not experiencing the same pressures, although work conditions in the nation are in need of attention as is illustrated by discontent in the transportation industry, education and the problems with the importing of fossil fuels. The work culture has a different ideology and the opposite effect on the nation than that which is expressed by those analysts stating the difficulty of encouraging privatization and free market reforms. Popular consensus is, and has been since the Kadar Era, in favour of continuing the drive toward attempts at trading in the Western marketplace, also referred to as market equalization and rationalization, in order to enjoy the relative prosperity of the European Community. The question is almost always one of degree and not of approach in that policy-makers ask 'how much' free market reforms rather than 'if' free market reforms should occur. The work culture does undermine some government policies but there is little indication that free market reforms are unfavourable. On the contrary, the discussion below regarding the work culture reveals support for such reforms.

The argument for efficiency is the second major generalization which is discussed in this chapter. Efficiency of the economic system is equated with 'better' government: "better in the sense that society's needs are satisfied more efficiently",⁹⁸ as Savas puts it. The belief that the crumbling of the Soviet bloc signals a victory for Western

political and economic structures has lent a great deal of support to the argument that free markets are more efficient in meeting the basic needs of the people than are their centralized counterparts.

Hungarian economic indicators do not support the argument that private capital investment, privatization, and free market rationalization lends itself to a more efficient system of economic relations. (The section below discussing efficiency will elaborate on these statistics). Free market advocates are helpful in that there is a recognition of the need to restructure economic relations. The danger in demanding such political and economic changes, however, is the assumption that a system that may appear to work for the Western economies must also work for Eastern Europe. The New Economic Mechanism is an embodiment of the idea that economic reform does not necessitate political liberalization. In Hungary, each may exist apart from the other and there is no demonstrable correlation between greater degrees of efficiency, and free market reforms and privatization. The assumption of such a correlation is dangerous in that it supports a form of instant privatization and capital investment known as "shock therapy".⁹⁹ There are some small extremist groups in Hungary calling for such radical restructuring but many analysts "are concerned that (such) a new major social experiment, 'shock therapy', as some advocates call it, will kill the patient".¹⁰⁰

The third general assumption in the discussion of open markets and private investment involves the idea that there is virtually no choice for East-Central Europe in general, and Hungary in particular, regarding free market adjustment. The pressures from the European Community are simply too great and as Szelenyi writes "the most likely... future of Eastern Europe is a full-fledged capitalist development"¹⁰¹. Szelenyi, a Hungarian who has written extensively on the subject of Eastern Europe and the changes experienced in recent years, suggests that "the correct question is not whether East European societies are becoming capitalist, but rather what kind of capitalism is likely to emerge in this part of the world"¹⁰². It is assumed that Hungary must succumb to the huge pressure placed upon it by the West and the Magyar people must engage in a process of restructuring economic and political relations along Western lines. The question for Szelenyi is the form which free markets will or can take in Hungary.

THE CASE OF THE WORK CULTURE:

The rationalization of wages and prices on the global, or at least on the European Community, markets has been stated to be a principal economic and political policy for the decade of the nineties. Western studies on marketization and privatization in Eastern Europe encourage investment in the region to a great extent. An interesting attempt at an

economic analysis is presented by Cole in a paper entitled "Political Effects of Marketization in Eastern Europe" in which it is maintained that Western capital investment and market rationalization is a solution to the economic problems left by the Kadar regime.

Encouraged by Cole's assessment of the situation one might conclude, as she and many of her colleagues do, that this rationalization must take place.¹⁰³ Her analysis is important in recognizing the existence of anti-state feeling in Hungary but this does not necessarily indicate anti- or pro-entrepreneurial sentiment. A closer look reveals support for such capitalist ideas in Hungary.

The argument which describes the Hungarian work culture, or the system of values inherited by workers from the communist period, as being anti-entrepreneurial and anti-capitalist and concludes with the idea that privatization and free market reforms must occur as soon as possible, is constructed by Cole and others in the following manner. By the nineteen eighties "workers lost hope that continued sacrifice for the system would bring future" rewards in terms of better living standards, wages or prices¹⁰⁴ and the black market and third economies grow to the point at which greater than twenty-five percent of economic transactions remain untaxed and unregulated.¹⁰⁵ The attitude toward state sponsored work becomes "you pretend to pay us we pretend to work".¹⁰⁶ Thus the work culture or the worker value

structure "undermines attempts by regimes to encourage entrepreneurial activity" and "encourages black market rather than legal activity...(and) encourages risk-reducing activities".¹⁰⁷

There is indeed a distinct work culture in the Hungarian nation as indicated by analysts on many sides of the privatization debate. The evidence which is deployed in the debate points to a direction contrary to immediate privatization and outlines a need for discouraging high levels of capital investment . Consider the first notion, for example, that the Hungarian workers do not believe that continued sacrifice for the good of the state will bring "future embourgeoisement".¹⁰⁸ It is difficult to believe that a work culture, born of a failed revolution and nurtured by Kadar's depoliticizing New Economic Mechanism for more than two decades, ever has the intention of making sacrifices for the good of the state. The growth and expansion of black market and third economy relationships are indicators of individuals attempting to better their economic situations given certain conditions and may indeed, as Cole suggests, be indicators of attempts at making personal economic gains through a bypassing of the state channels of personal income. This does not necessitate, however, some kind of lost faith in the state to provide for individual economic needs. The faith to which Cole alludes and which is necessary for her argument is never there in the Kadar era and neither is it present in

post-Kadar Hungary.

We can turn our attention to the facts surrounding the black market and third economies in order to illustrate the tenuous connection between the premise of the work culture and the conclusion of undermining stated above.

It (the work culture) encourages risk-reducing activities, such as fencing previously sold or stolen items rather than setting up new productive facilities. And the work culture militates against optimism that underlies investments in new ventures, and that informs innovation.¹⁰⁹

In short, Cole believes "labour in east-Central Europe (i.e. Poland, Hungary and Czechoslovakia) has an 'attitude' that works against entrepreneurial activity".¹¹⁰ Cole's argument is symptomatic of much of the literature which analyzes the Hungarian situation from a Western (American in Cole's case) school of liberal economics. A closer look at these 'risk-reducing activities' indicates quite the opposite. For example, the notion of 'risk' as identified by Cole, Szelenyi, Gati, and others, and the Lipset, Sparks and Steiner work on economic theory, involves the investment of private capital in a venture which has the potential to succeed or fail depending on the supply and demand situation present in the market into which the private capital is to be introduced; one speculates with private venture capital in the hopes of gaining more capital than the original investment.

However, in the face of limited access to potential capital gains the Hungarian people have indeed attempted risk

with venture capital in terms of bypassing accepted channels of income. Regardless of severe economic downturns beginning in the middle of the nineteen seventies the percentage of capital investment per person, after adjusting for inflation, continued to rise along with the black market and third economy activity.¹¹¹ The move away from state involvement continues to be the preferred choice for Hungarians and this is, in fact, risk-taking activity as defined by Cole and other liberal economists. The undermining of state sponsored activities does indeed continue but there is a definite move toward private capital investment. The attitude of the work culture is, in fact, very much in favour of privatization and capital investment even as it continues to undermine state-sponsored activities which are reminiscent of the old regime,

and if we cannot continue with the old ways, if we cannot 'invent' and introduce an entirely new model of the socialist economy, then there is no other escape but a market, in its present (i.e., Western) form.¹¹²

The support for free market adjustment could not be more emphatic.

The notion of worker mobility is an interesting aspect of the work culture and is another example of ethnocentric conclusions by Western analysts. "One of the premises of a... market system is that factors of production will be free to move to those areas that will maximize the value of the use of those factors".¹¹³ Equilibrium markets, or the

rationalization of wages and prices in concert with Western free markets, are the goal of privatization advocates and thus labour must be free to produce and create goods and ideas in this supposed balance.

Worker mobility may be a problem in the transfer from Centrally Planned Economies (C.P.E.'s) to free markets as there is a danger of "gypsification" or workers who will become "transient and ... (living) by barter and by taking whatever short term employment is available, before moving on".¹¹⁴ Privatization advocates recommend a short-term curtailment of mobility of workers in order to guard against, firstly, a mass exodus of workers and intelligentsia to areas offering the highest possible wage-earning potential; secondly, movements toward untaxed and unregulated black market work; and thirdly, transient and short term labour.

Unfortunately this seems to represent another misunderstanding of the Hungarian work culture. For example a number of analysts have suggested that the German unification provides a case study for the former Soviet Bloc nations.¹¹⁵ Apparently the mass desertion of East Germany after the unification is supposed to indicate a move toward higher wage earning sectors in the attempt by workers to maximize their utility as wage-earners.¹¹⁶ In doing so, Eastern European nations would experience a 'brain drain' or the removal of technicians and professionals from their respective work sectors as they exit toward the greater wages

of the West. On the other hand it is more likely that the withdrawal of Soviet troops will light the fires of national and regional sentiment. Hungarians and Poles have remained in their home countries with many returnees from the West providing optimism for rebuilding. Yugoslavia and Czechoslovakia have since attempted to break into pre-Soviet regional divisions and fight for their respective homelands rather than leave for Western markets. It would be very difficult to argue in the case of Hungary and Poland, for example, that there will be the abovementioned gypsification of the labour force and a movement toward those nations offering a higher wage for workers. In light of the difficulties experienced by Hungary in stabilizing the economy there remains a steady growth in the population and there is no evidence of an exodus in any sector of the labour force. Clearly the challenge of rebuilding after the Cold War is more stimulating than short term employment and transience.

The recommendation of labour regulation is part of this general misreading of the situation. The contention that "equilibrium markets are the goal, (and)... labour must be free to move to avoid bottlenecks in producing goods and ideas"¹¹⁷, but with short term labour regulation, is a dangerous prescription. East Central European workers live with the legacy of 'kontrol'. The 'kontrol' involves strict supervision by the respective national Communist Party to the point where most people are not afforded the opportunity to

change job positions as their occupations are equated with their identity. Each worker is issued a card which lists her or his occupation and place of work and this is used as a principal piece of identification much like a drivers license or credit card in North America. 'Kontrol' is equated with the strictly regulated Marxist regimes of the pre-Glasnost/Perestroika era and a short term regulation of worker mobility would definitely be interpreted as a return to earlier days.

There has been a misreading of the Hungarian situation by Cole, and the analysts referred to above, resulting in prescriptions and recommendations for post-Kadar Hungary which are dangerous to the political and economic health of the Magyar nation. A recommendation of a curtailing of worker mobility invites further unrest as it would be in opposition to the work culture. The gypsification of the labour force is simply not a factor to be considered in Hungary as the challenge of rebuilding during post-Communist opportunity keeps Hungarians at home. Similarly, there is little need to encourage capital investment and privatization, nor is there a need to promote free market rationalization among the populace. A recent poll illustrates discontent with the present regime in Hungary as more than seventy-two per cent of Hungarians polled "believe they are worse off economically than they were before the transition to democratic rule"¹¹⁸ in the form of free elections. No more than four per cent,

however, indicated a desire to return to a socialist economy. It is the case that many Hungarians believe that in order to finally be allowed to become 'fully European' as is their birthright, they must live as the rest of the European Community; with relative labour mobility and a rationalization of wages and prices on the European free market.

THE ARGUMENT FOR EFFICIENCY:

The ultimate test for the free market advocate is always the case of efficiency. An underlying assumption which guides privatization arguments is the notion that a free market system of wage and price rationalization is generally more efficient than a Centrally Planned Economic structure in terms of meeting the needs of the people for whom the service is provided for, allowing for the greatest margin of profit, and wasting the least amount of resources in providing a particular service.¹¹⁹ Janos Kornai writes in his work

Contradictions and Dilemmas:

Economic scientists have yet to establish an unambiguous interpretation of the expression 'efficiency'. Here it is not necessary to become embroiled in the debates surrounding precise definition of it. It will suffice if the reader clearly sense the associations of ideas connected with the concept: we term efficient an activity that makes good uses of the resources and is based on a consideration of the benefits and the sacrifices made to achieve it.¹²⁰

An interesting work which addresses this issue is John D. Donahue's The Privatization Decision: Public Ends Private

Means. In Donahue's analysis there are a number of case studies, for example garbage collection, utility contracts, transit system management, in which he places the data of public and private funding side by side for the purpose of comparison. His conclusions indicate that the "profit-seeking private firm is **potentially** a... superior institution for efficient production" and that "productive potential can be tapped only under certain circumstances".¹²¹ Donahue is certain that there are instances in which greater degrees of competition may produce greater efficiency. "Applying private means to public ends"¹²² can have positive effects, but "meaningful competition is often far easier to praise than arrange".¹²³

The assumption of efficiency allows for the notion that a market without equilibrium is still a set of supply and demand relationships (i.e. a non-equilibrium market may still be referred to as a market according to Cole) but "a market without equilibrium totally lacks the most important quality; surplus demand does not motivate producers to deliver higher quality products".¹²⁴ The creation of an equilibrium market must be attempted, according to these analysts, because, by definition, such a market involves the "unimpeded interaction of supply and demand that clears markets".¹²⁵ The recommendation to clear the path for an unobstructed interrelationship between supply and demand must occur since, as Cole states, the "inefficiency of the C.P.E.'s remains as

a reminder of repressive political and social orders of the communist regimes".¹²⁶ However, Cole herself concedes that there are situations in which such an equilibrium is difficult to achieve as she states, "in a labour market, for example, that would require negligible levels of unemployment in skilled, unskilled, and other specific job segments, a requirement not met in actual Western markets".¹²⁷

Western analyses conclude that the 'political' wages and prices of Eastern European economies must be rationalized on the free market since "the main element in socialism is not the economy but the political system".¹²⁸ Cole, for example, takes this to mean that by implication a Western market attempting equilibrium, or the removal of political obstructions between supply and demand, focuses on the economy which will engender a situation of efficiency. It is interesting that she relies heavily on the existence of black market economies and plodding bureaucracies as proof of the need for a more efficient system of market rationalization. Her assumption is that in order "to compensate for C.P.E. distortions"¹²⁹ a black market becomes an important means of income but she does not allow for the same criteria to analyze Western economies. If she did, her argument suggesting the greater efficiency of free market economies and calls for a more efficient organization through decentralization, would crumble. Black markets and bureaucratic waste are not endemic to the former Eastern Bloc.

The Western market system is not perfect, she acknowledges, but it is indeed more efficient. An examination of various economic indicators in the Hungarian case illustrate a different picture, as the statistics indicate a post-World War Two period of steady growth. The index of production illustrates a steady increase from 1950 through to 1975.¹³⁰ The index of real wages per wage earner illustrates a steady growth for the same time period,¹³¹ and the consumer price index was at 109 percent for 1987, seven percent higher in 1988, and **one** percent greater than the previous year in 1989.¹³² Neither private investment nor state involvement seem to produce clear evidence of greater efficiency as these main economic indicators illustrate a reasonably healthy economy.

The Hungarian C.P.E., as a direct result of the New Economic Mechanism brought in by Kadar in 1968, was directed to serving the economic needs of the Soviet Union. The export/import balance was geared toward Soviet interests by the Kadar regime until its political demise in 1988. This situation gradually changed as Hungary borrowed from the Western markets in terms of capital and economic policy agendas as the New Economic Mechanism allowed for increasing decentralization of the C.P.E. Unfortunately Kadar's allowing for greater social access to economic channels correspondingly limited access to political channels in the nation. Soviet dependence on the Hungarian economy as a gateway to Western

technology allowed the inception of free market reforms and the limiting of political expression satisfied the Soviet demand for political control of Hungary.

There are a number of interesting implications of the political and economic structure created by Kadar and the legacy they leave in the post-Kadar period. An analysis of the Hungarian economy illustrates the following there is a steady rise in G.N.P., external trade, real wages, and percapita consumption from 1938-1975 with dramatic upturns in the economy in the early 1960's to the middle of the decade upon which Kadar attempts to build a success of the N.E.M. with the 1968 official recognition of the policy.¹³³ The end of the Kadar era comes in 1988 with his power gradually weakening in the middle and late 1980's as privatization correspondingly increases. References to a correlation between these two facts are on shaky ground as there are other domestic and international forces at work such as growing discontent in the Hungarian Socialist Workers Party and Soviet political liberalization. A look at the end of the Kadar period illustrates a minor drop in foreign debt total and international reserves.¹³⁴ The balance of payments problem worsens at the end of the 1980's and there is a thirty-six million dollar (U.S.) drop in state reserves with a recovery the next year to follow the expected pattern of a more gradual reduction.¹³⁵ There is a significant drop in industrial production as privatization increases; household

incomes continue to rise with 1988 continuing to be a slow year as the rise in incomes is not as high as expected.¹³⁶ There is a rise in tourism in the end of the decade with 1988 showing a decline in tourism income and domestic credit drops in 1988 with a recovery of slightly more than 1987 levels in 1989.¹³⁷

These economic indicators point to a few simple conclusions. Increased instability in 1988 in the region causes downturns in tourism and domestic credit. Privatization, which increases steadily from the late 1970's at the beginning of the decade ending recession in Hungary, does not spur more efficient production within industrial sectors of the economy and higher levels of privatization correspondingly reduce industrial output. G.N.P., real wages and household incomes rise steadily regardless of fluctuations in levels of privatization and there is simply no evidence to suggest that the contrary is the case. As private investment levels out, the steady rise of economic indicators listed above continues. It does not fluctuate with increased levels of privatization, except for a significant drop in 1988, which could be seen to prove the greater efficiency of the C.P.E. if one adhered to the type of analysis employed by Cole. The contention here is that the major shift in power with Kadar's exit in 1988 is the principal cause of the economic uncertainty. Privatization and free market reforms are not more efficient as the Hungarian economy enjoys a steady rise

in productive capacity, G.N.P., and household income from the late 1930's regardless of which system is adopted.

Thus the argument for efficiency does not readily apply to a Hungarian analysis and if one chooses to employ Cole's criteria of assessment one might be more successful in arguing the reverse: that of the greater efficiency of the C.P.E. especially in the face of having to justify the economy in Hungary to the needs of the Soviet Union. High levels of privatization, often called 'shock therapy', are very successful in the case of Poland where an industrial economy experiences severe capital shortages and must encourage these high levels of capital infusion. In this case, private investment and free market reforms might present a greater efficiency in terms of the ability to infuse large amounts of much needed funds to get the large Polish labour intensive and capital intensive industries back on their collective feet. The Hungarian case is much different, however, as there has been relative prosperity for decades and virtually all major economic indicators illustrate a lack of significant economic change due to private capital influx or free market reforms. It is clear in this case that free market rationalization does not necessitate efficiency. The complexity of a national economy may require that specific sectors be addressed according to specific needs rather than implement policy based on a set of general assumptions. A more helpful approach involves the prescription offered by Hungarian analysts who

suggest a gradual privatization and avoiding competition on economies of scale.

THE ASSUMPTION OF FREE MARKET INEVITABILITY:

As has been argued above, the Hungarian work culture is such that it is fertile ground for Western influence. Private investment and free market reforms have the support of people seeking to act on the hoped for freedom granted with the political demise of the Kadar circle and the exit of Soviet troops. It is also the case that neither centralization nor private capital ownership engenders greater efficiency in the economic sphere. The Hungarian economy continues to exist in a state of relative prosperity regardless of the political and economic hardships imposed upon it. "Hungarian economy and society, if not exactly thriving, are at least functioning, although, as in the interwar period, no Hungarian is able to explain the cause of this miracle".¹³⁸ The question for a number of thinkers is, given the unavoidable influence and likely economic merging with Western Europe, how to recommend a strategy which will allow equal access to economic relations while moving in the direction of solving state macro-economic problems in Hungary.

Ivan Szelenyi has been referred to as both a Third Way theorist and an advocate of the principles espoused by the Budapest School. He distances himself from the "Third Way theories of the interwar years in Eastern Europe"¹³⁹ and

instead claims to be an advocate of a mixed economy. This is different from the Budapest School in that Szelenyi believes there is a need to maintain private property relations and rejects the political implications of Polanyi (this is discussed in greater depth in the next chapter on the Budapest School). His most recent work addresses the issue of post-Kadar economic adjustment in Hungary and is based on two premises. The first is that the region in general "will most likely become a mixed economy... a dual economy, quite different... from the Scandinavian"¹⁴⁰ and following this, the second assumption is that "Eastern Europe is likely to follow a historically unique path, during the next few years".¹⁴¹

Janos Kornai is a professor of economics at Harvard University and a member of the Hungarian Academy of Sciences. He addresses the same issue that Szelenyi does and builds his argument on the same basic premises. The two thinkers attempt to illustrate the necessary prescriptions for economic adjustment and recommend a specific approach to the historically unique post-Communist nations in Eastern Europe. For the case of Hungary it is assumed that free market rationalization is inevitable and the task is to attempt to work with the tools given by a centralized post-Communist state to create equal access to economic relations. Szelenyi states that although he is a sociologist and Kornai is an economist they have both reached similar conclusions.

We both emphasize that the primary task in Hungary is the creation of individual private property and of a new and genuinely entrepreneurial class... and we both foresee... the existence of a dual or mixed economy with a dual social structure.¹⁴²

According to Szelenyi the decisive forces for Hungary are external. The IMF and the World Bank allow virtually no freedom for the Hungarian government. "International business interests jump to grasp suddenly opening... business opportunities, and the IMF and the World Bank represent primarily those interests".¹⁴³ Given this inescapable reformation, Kornai suggests that certain regulations be encouraged in order to allow for a "shifting away"¹⁴⁴ from Kadarist policies to greater liberalization. These suggestions include the following set of recommendations: (a) the private sector must be wholly and truly liberalized; (b) the enforcement of private contracts must be guaranteed by law; (c) the absolute security of private property should be emphatically declared; (d) the tax system should not restrain private investment; (e) private investment as well as the formation and growth of private capital must be promoted through credit; (f) society must learn to respect the private sector.¹⁴⁵ In effect, a dismantling of the bureaucracies which hinder the growth of private capital in Hungary.

Kornai and Szelenyi do not promote unregulated free markets in which the return on capital investment is the most important result. These analysts realize the importance of

maintaining a state structure with a degree of centralization in order to promote private capital in a way which is good for Hungarians. Kornai suggests "the private sector develops step-by-step. It is impossible to institute private property by cavalry attack".¹⁴⁶ The state sector must also aid in the burden of solving macro-economic problems such as the international debt and foreign trade balance. Kornai's solution is in line with Szelenyi once again as he has a series of specific recommendations for reforms in the state sector. Kornai states that "state ownership in some places is more efficient than private ownership" and "specific analyses are needed to explore whether the transaction at issue is efficient in light of... (certain) requirements".¹⁴⁷

Kornai suggests the following recommendations be adopted: first, "the members of the private sector should be given the chance to buy the wealth of the state sector in suitably divided parts";¹⁴⁸ second, "regardless of its size, state property should be sold at a real market price";¹⁴⁹ third, "in the sale of state property to private owners, a credit plan must be established";¹⁵⁰ fourth, "the practice of leasing state assets to private individuals is already widespread in Hungary and is definitely needed";¹⁵¹ fifth, "part of Hungary's state wealth can be sold to foreign owners, but only to the extent compatible with the nation's interests";¹⁵² sixth, "each sale of state assets... (must) reduce by the same amount the citizens' contribution to the

treasury via taxation or inflation";¹⁵³ seventh, avoiding excessive amounts of forced savings or monetary overhang (large amounts of unspent money due to minimal downpayment amounts in buying state property) by examining the "cash-credit ratio in sales transactions";¹⁵⁴ eighth, the much-criticized Corporation Law in Hungary "enables a state-owned firm to convert itself into a joint stock company and its shares to pass into the hands of various owners" and this can be beneficial, according to Kornai, "as long as it leads to a **real** privatization of the firm";¹⁵⁵ and finally ninth, "the marketing of state wealth should be a fully public process, in a framework laid down the law".¹⁵⁶

Kornai's recommendations are attempts at recognizing specific problems in the Hungarian economy while assuming that the external pressures must be dealt with through the existing political and economic channels in the nation. "It would be unwise to employ uniform methods"¹⁵⁷, specific examples relevant to the Hungarian context are necessary. The third point in the recommendations for state reform, for example, is elaborated through a direct example of a feasible credit arrangement in the sale of state property to private owners. Neither Kornai nor Szelenyi attempt to introduce policies which adhere to the assumption that a free market is necessary and more efficient than a centralized system. They examine the case of Hungary and attempt solutions based on the domestic conditions and international constraints. Kornai

writes,

State property should be sold to private owners if the deal is advantageous from a macroeconomic point of view, and if there are guarantees that from the microeconomic perspective the new owner will do better than the old one.¹⁵⁸

The Hungarian "cadre-intelligentsia has become 'bourgeoisified' "¹⁵⁹ and has no intention of returning to the old Communist ways. Antiques, private English-speaking schools for their children, and ambitions to become entrepreneurs and professionals rather than party officials dominate the ideology of the new petit-bourgeoisie.¹⁶⁰ Unlike Cole's assessment which states that there is a danger from anti-capitalist elements, Szelenyi maintains that much of the domestic sentiment of the elites in Hungary, and as a result it's capital investments, are indeed in favour of free market reforms. As a result, it makes more sense for Szelenyi to regulate domestic capital in a moderate fashion in order to encourage investment but to avoid attempts at competition on economies of scale. He suggests Hungary avoid the South Korean model of forced domestic savings and political repression, attempted by the first Party leader to succeed Kadar (Grosz), and instead concentrate on middle and smaller specialized markets. By aiming products at specific consumer targets, Hungary can continue an economic process already in motion and relatively successful. One can purchase "Hungarian salami, wine, and paprika in the supermarkets of Los Angeles, London or Hamburg"¹⁶¹ and rather than radically restructure

economic relations these ventures need to be maintained and encouraged.

The assumption that the external pressures on the Hungarian state will push for further Westernization of the nation's economic relations leads to the idea that "we shall have to reckon for the next two decades with the **dual** economy that has emerged in Hungary over the past ten to twenty years"¹⁶² and in doing so encourage a mutually beneficial relationship. "This symbiosis, though replete with conflicts and frictions, will remain inescapable for a good while".¹⁶³

CONCLUSIONS:

The analyses which recognize the work culture in Hungary are useful in that they illustrate a unique set of circumstances which are necessary in considering prescriptions to the problem of Hungarian economic adjustment. There is a good deal of misunderstanding of the Hungarian context, however, and many analysts are only recently coming to realize this fact. Istvan Deak asks "why did no one predict the... (political changes) of 1989?"¹⁶⁴ His statement illustrates the void in political and economic analyses dealing with the region. The work culture needs recognition but, it needs such recognition based on Hungarian political history and not Western preconceptions.

The argument for the greater efficiency of free markets and the ability for private capital to solve economic

imbalance is difficult in the case of Hungary. There is no demonstrable connection between efficiency and the inception of free markets in the discussion of the Hungarian nation. Western privatization does not necessarily indicate the same effects in the Eastern European countries in general and Hungary in particular. The importance of arguments for efficiency lie in the idea that there is an objectively 'better' way to achieve macroeconomic and microeconomic symbiosis. "There can be no 'Berlin Wall' between the state and private sectors".¹⁶⁵ In order to provide solutions to the problem of economic adjustment in the Hungarian nation it is simply not enough to assume that a free market is more efficient than a central agency. It is important to recognize the potential for creating a 'better' or more efficient structure of economic relations and it is also necessary to consider specific sectors and cases within the national economy. When considering the assumption that the external pressures from the Western free market structure will be inevitable, analysts such as Szelenyi and Kornai provide specific recommendations for the Hungarian case. These prescriptions are based on the assumption that there will be a dual economy in the Hungarian nation in the following few years. There is an attempt to analyze the specific conditions of the Magyar nation and fulfil macroeconomic and microeconomic considerations in order to create a mixed economy with the potential to provide growth in the private

sector and allow the state to meet certain objectives. As Kornai writes it would be ridiculous to privatize the highway system simply on the basis of attempting to create profits from a previously state-run sector.¹⁶⁶ The existence of an inevitable dual economy must be realized according to these thinkers. The next step is to create a mixed economy which will serve the needs of the Hungarian people based on the analysis of the Eastern European political history in general and the Hungarian context in particular. The Budapest School is just such an attempt.

CHAPTER FOUR:

THE BUDAPEST SCHOOL

INTRODUCTION:

The Budapest School is a group of former students of the Hungarian philosopher Georg Lukacs. There are four individuals who are generally considered to be the main figures in the body of writing in the Budapest School. They are Ferenc Feher, Agnes Heller, Georg Markus and Mihaly Vajda. A number of other Magyars have been included in the delineation as a result of the only formal collection of articles which carries the name of the school.¹⁶⁷ The Humanization of Socialism: Writings of the Budapest School excludes the works of Georg Markus and consists of articles written by Ferenc Feher, Andras Hegedus, Agnes Heller, Maria Markus and Mihaly Vajda. Apart from those mentioned above, there are some analysts who include the writings of Georg Bence, Janos Kis, Georg Konrad, Sandor Radnoti and Ivan Szelenyi.¹⁶⁸

Georg Lukacs gave an interview, subsequently published in the Times Literary Supplement, London, on the eleventh of June 1971, a few short months before his death. In this interview he invented the term 'Budapest School' and mentioned Feher, Heller, Georg Markus, and Vajda. Towards a Radical Democracy: The Political Economy of the Budapest School by Douglas Brown accepts these four figures as the major contributors to the school in that they express "a common concern not only for the

application of Marxian social theory to contemporary issues but also for the elimination of alienation"¹⁶⁹ and they attempt to make the "distance between the potentialities of the human species and its individual richness the smallest".¹⁷⁰ The remaining individuals mentioned above can be considered as important, but supplementary, contributors for a number of reasons. For example, Ivan Szelenyi has stated that "the correct question is not whether East European societies are becoming capitalist, but rather what kind of capitalism is likely to emerge"¹⁷¹ and has demonstrated the need for private property in a mixed economy. The acceptance of the inevitability of capitalism is a tenuous connection with the four main figures but the necessity of private property is a decided break from the analytic preoccupations of the Budapest School. Szelenyi has also repeatedly disagreed with the radical democracy alternative in that he rejects the political implications of Polanyi's thesis. Simply put, Szelenyi believes that the complete democratization of the workplace in an industrial society can lead to higher wage demands, decreased productivity, and inflation as has been the case for several communist states in the Soviet Bloc.

Another example is that of Andras Hegedus who has been labelled "Hungary's last Stalinist premier"¹⁷², and although he has addressed "the issue of bureaucratic domination within soviet society"¹⁷³ and was subsequently removed from his

post at the Academy of Sciences, according to Brown his work does not concur with the four main disciples of Lukacs; those individuals being Ferenc Feher, Agnes Heller, Georg Markus, and Mihaly Vajda. This work accepts the categorization of the four main thinkers in the spirit of Lukacs and as delineated by Brown in his work Towards a Radical Democracy.

Istvan Deak asks of the recent changes in East-Central Europe, "Why did no one predict... (these events)? How did we manage to expend a sea of ink and thousands of hours in scholarly discourse only to be totally surprised by what is happening there?".¹⁷⁴ The Budapest School contends that the Hungarian situation has been misread by analysts unfamiliar with the Eastern European phenomenon. The most pervasive characteristic of the Budapest School is one which assumes that a new approach is necessary to East European analyses in general and the Hungarian context in particular. These thinkers attempt to explore soviet societies based on the notion that their history is unique and must be treated as such. It is only with the realization that East European political and economic relations are an unprecedented phenomenon that any form of analysis can expect to proceed and claim some form of insight into the activities of the region. According to the Budapest School this is the main reason that the recent political changes in Eastern Europe have been so surprising.

The Budapest School attempts to rectify this situation by

offering a critique which seeks to accept the Hungarian nation on the grounds of its own history. A discussion of post-Kadar Hungary brings forth three main aspects of the Budapest School critique which are particularly suited to political and economic adjustment. The first is the critique of capitalism, the second is the critique of socialism and the third is the proposed radical democracy of the mixed economy. The critique of capitalism provides an analysis of political and economic relations in capitalist or free market economies in Western nations. The discussion of capitalism for the Budapest School "does not view capitalism as a product of class struggle".¹⁷⁵ It is a society "characterized by a stratified distribution of power over social decision-making mechanisms".¹⁷⁶ The discussion of existing socialism also rejects the orthodox Marxian notion of the class struggle as the single explanation for activity. Soviet societies "remain inexplicable by Marx's basic class-based categories".¹⁷⁷ Eastern Europe must be seen as "new social formations requiring a fresh approach".¹⁷⁸ Consequently, the Budapest school suggests the radical democracy alternative based on a mixed economy.

The radical democracy alternative is particularly appropriate to the post-Kadar situation in the Hungarian nation for several reasons. The Budapest School is composed of Hungarian scholars who based their social criticisms on their experiences in the East European region. The radical democratic structure envisioned by these thinkers has a

historical precedent, although very short-lived, in the Hungarian Revolution. "Feher and Heller have argued that the popular revolution in Hungary in 1956 is one example of how a radical democracy might emerge in Eastern Europe".¹⁷⁹ The fact that Soviet troops no longer occupy Hungarian soil and the Kadar circle no longer maintains power in the nation might allow for the regeneration of such a democracy. Free market pressures coupled with the existing centralized structure of Hungarian society also falls in line with some of the prescriptions in the Budapest School version of a mixed economy.

THE CRITIQUE OF CAPITALISM:

The Budapest School rejects the Marxian conception of capitalism in that the dialectic of wage-labour and capital is insufficient in explaining the history of capitalism. This economic logic of Marx is a valuable organizing tool but it remains insufficient in explaining capitalism. Coupled with this, the Budapest School "refuses to view the activities of the capitalist state as an epiphenomenon of the class-constituted property relations in Marx's base-superstructure dichotomy".¹⁸⁰ Simply put, this indicates that the Budapest School does not accept the idea that activity of and by the capitalist state is a result of the clash of class divisions between a lower working class and an upper elite. For the Budapest School there does exist a tendency and an organizing

process of capitalism which indicates such characteristics. It is not the single tendency, it is not the lone organizing process, nor is it a single explanation of capitalism. The process of capitalism is stratified.

Brown employs the thesis of Karl Polanyi in describing the Budapest School's Neo-Marxism. Polanyi supports the idea that Marx's economism analyses one tendency within a total process of "disembedding the economy from society".¹⁸¹ For the Budapest School "the historical process through which formal democracy evolved, that is, the protective response, indicates serious problems in Marx's economic method".¹⁸² Formal democracy, the structure of Western political democracy, came to be as a result of this counter-movement in the form of the protective response which sought to check the development of capitalist relations. "Capitalism became an economic society through a process that was largely political--the disembedding of the economy simultaneous with the protective response".¹⁸³ Thus the protective response is a spontaneous attempt by society to re-embed the economy through a repoliticization of the economic sphere.

Polanyi states, "the dynamics of modern society was governed by a double movement: the market expanded continuously but this movement was met by a counter-movement checking the expansion in definite directions".¹⁸⁴ The history of capitalism, according to the Budapest School, is one in which "power over social decision-making mechanisms was

neither democratized nor dichotomized by the double-movement of the nineteenth century".¹⁸⁵ It (power over decision-making) was not allowed equal access to all individuals nor was it split into the base-superstructure, capitalist-proletariat dichotomies. Instead, the power was stratified. Stratification means "that decision-making is unevenly distributed".¹⁸⁶ In his work The State and Socialism Mihaly Vajda writes,

Without a counter-trend, that is, without a trend towards repoliticization of the relations within civil society, the society would not be viable. Nevertheless, as long as these counter-trends, merely limit (without becoming subject to) the basic trends of capitalism, in order to maintain in existence the relations of private ownership, capitalism remains capitalism.¹⁸⁷

This means that the system of power distribution, which is based on the profit motive, is not directly compromised by the state. This does not indicate that there exists a state of completely free competition in the economic sphere but instead it means that "the fundamentally private nature of ownership" continues to dominate.¹⁸⁸

The economic sphere has not been democratized; it has created a stratified power structure. The role of the state in capitalist society "has not been to undermine or directly subvert conditions of private capital accumulation or the existence of dominant business interests and social groups".¹⁸⁹ The position of the state "has been to respond

to those less powerful social groups threatened by the market"¹⁹⁰ in a reactive rather than a proactive fashion. The state "has functioned to ameliorate market problems without violating business interests"¹⁹¹ through the protective response and in this system of stratification the power remains with those who dictate the greatest amount of resources. Simply put, those with the proportionately largest access to capital command the most political influence in terms of decision-making in civil society. Thus capitalism, for the Budapest School, is still fundamentally undemocratic and as Vajda tautologically puts it "capitalism remains capitalism".¹⁹²

Continuing to draw on Polanyi's dialectic, however, the Budapest School argues that this clash between the market forces and the counter-movement of the protective response does have potential in that it is not static.

Formal democracy is still in the making and can be the basis for a transformation in its content, a transformation towards a radical democracy in which the right of equal participation in social decision-making is paramount.¹⁹³

Thus as Agnes Heller states in the article entitled 'Past, Present and Future of Democracy', "formal democracy is precisely the great invention ensuring continuously the democratic character of a state".¹⁹⁴

The break with Marx goes further as the Budapest School states that transcending capitalism does not mean transcending

bourgeois society. The Budapest School argues that bourgeois society has kept alive the idea of the free individual with the potential for complete development. As a result these thinkers believe that "if the social inequalities of capitalism are to be overcome without sacrificing individual freedom then a major revision of Marx's socialist vision is necessary".¹⁹⁵ This revision involves the Budapest School conception of a Marxian idea of the 'individual'. As these thinkers view Marx, individuals and their respective freedoms realize full potential in a condition of absolute abundance of resources. According to Brown, Mihaly Vajda does not believe bourgeois society can be transcended because there is a necessity to place constraints on the individual through state authority. This must be done by "any future society based on democratic decision-making"¹⁹⁶ because of the existence of limited and non-renewable resources. Human knowledge of the limited resource base of the environment introduces the necessity of such state limits. Thus a revision of Marx is necessary in that the individual freedoms of capitalism can be maintained through these limits imposed through the state and bourgeois society can not be transcended; both processes can, however, be democratized.

In her article "The Dissatisfied Society", Agnes Heller discusses these ideas of individual freedom and lays the foundation for this democratization. "We cannot conceive of the continuously expanding individual need structure and the

simultaneous satisfaction of all human needs in the same breath, for several reasons"¹⁹⁷ she writes, as we can not believe that the natural resources of the planet are unlimited and even in the "case of a continuously expanding demand for material goods a state of complete abundance"¹⁹⁸ is not possible. Some external body must then intervene to guarantee equal self-determination for all individuals.

The beautiful and plastic idea according to which all we need is for man (sic) to develop his essential forces, and all he needs for this purpose is to bring about a human society which will make this possible for everyone is something I myself accept, with one qualification: that 'all he needs' is indeed everything".¹⁹⁹

Heller's 'beautiful and plastic idea' is the notion of equal self-determination which is in itself, she admits, a modern construction. In capitalism, however, the stratified social decision-making process limits the expression of this equality. This limiting occurs "by allowing the formally free individual with potentially unlimited needs to emerge out of society and simultaneously by allowing the emergence of a self-regulating market economy based upon consumer demand".²⁰⁰ It is by this process that a capitalist society is organized "around commodity oriented need fulfilment".²⁰¹

For post-Soviet Union, post-Kadar Hungary the Budapest School's view of capitalist development and propagation is helpful in that there is an attempt to maintain the notion of individual freedom and creativity. Rather than reject the

inherent difficulties of the stratification of power in a capitalist structure, the Budapest School chooses to democratize the relations of production, or as Polanyi might put it, to 're-embed' the economic sphere in society. The productive capacity of a capitalist structure is maintained but radically democratized. In light of the great pressure from the European Community and other international free market agencies such as the European Bank for Reconstruction and Development, Hungary is faced with the necessity of dealing with the steady increase of Western capitalist influence. The Budapest School offers a method by which to deal with these pressures through their critique. The method involves the liberalization of access to capitalist relations of production, rejection of the commodity-based production cycle, and the promotion of human freedoms through the democratization of production. Hungary must also deal with the legacy of the socialist structure and the Budapest School offers a critique of existing socialist societies.

THE CRITIQUE OF SOCIALISM:

"The major point the Budapest School has tried to make is that a new approach to soviet societies is necessary".²⁰² The Budapest School critique of existing socialist states attempts to establish a link between the economic approach of Marxist analysis and the characteristic of domination in these societies. The Budapest School believes that the

Western left has avoided the suggestion that there "might be a definite connection between the obvious denial of human freedoms in these countries and Marx's approach".²⁰³ Furthermore, they (Western leftist analysts and thinkers) have avoided serious study of Eastern Europe resulting in explanations of Eastern European societies "that have not fully explained the repression and social domination in these self-reproducing systems of unfree paternalism".²⁰⁴ These two factors, the inherent repressive character of the economistic approach and Western ambivalence and misunderstanding necessitates a revision of Eastern European economic and political analysis in general and the approach to Hungary in particular.

The Budapest School maintains that the economism of Marxian analysis is still a valuable organizing tool in terms of a paradigmatic approach to the analysis of Soviet societies. They employ such a critical theory paradigm since "the task of the critical theory of these societies is to discover the specific rationality of the system and thereby the tendencies, strains and contradictions of its development".²⁰⁵ For Markus, the "Marxist tradition in its historical totality does retain its critical potential with reference to the societies of Eastern Europe".²⁰⁶ The main reason for this is the alternative of the "liberal theory of authoritarian political systems"²⁰⁷ which is far too simplistic an approach for the Budapest School. These

characteristically Western analyses have chosen to employ such a theory and consequently have fallen well short of the mark, in the eyes of the Budapest School, regarding a process of explanation of activity in these societies. It is here that the Budapest School begins to branch out and create its own analytic school. They seek to go beyond the totality of Marx's economism while rejecting the Western approach of the liberal theory of authoritarian political systems. The emphasis is on the value of economism as an organizing rather than a totalizing mode of analysis and if the reductionism of the economic approach is given up then "the class division of society ceases to be the only important and decisive factor in the constitution of social groups".²⁰⁸ Vajda, for example, states that even though these class divisions have been officially eliminated in these Soviet societies they still "may have a definitely hierarchical structure".²⁰⁹ In terms of an organizing process the "new inequality comes to permeate all of social life: i.e., that between those who distribute and those who are distributed".²¹⁰

For the Budapest School, the Eurocommunist or Western Marxist approach is indicative of a general ambivalent characteristic of most Western analytic approaches to Soviet societies. "Soviet society represents the historical embodiment of ... the Babeuf option"²¹¹ which means "the eliminat(ion of) the inequality of capitalism by sacrificing individual freedom".²¹² The Budapest School constructs the

argument as such: the separation of the economic sphere from capitalist society greatly increases the degrees of freedom over previous societies. This results in the creation of a civil society which advances the freedom of the individual. In Soviet society, however, there is an attempt to eliminate inequalities generated by capitalism through sacrificing the individual freedom generated by capitalism. This type of anti-capitalist structuring of society operates on the assumption that capitalism and bourgeois society are inseparable. Therefore, directly as a result of Marx's economistic method, the elimination of capitalism meant the elimination of civil society.

"This is precisely the option taken in Eastern Europe"²¹³ and it has not been taken seriously enough by Western Eurocommunists according to the Budapest School. There is an attempt by these thinkers to salvage socialist thinking, as the inability of Western Communist critiques to fully explain Eastern European societies has left the socialist movement with a vast analytic deficiency. "There is nothing socialist about soviet societies"²¹⁴ and Eurocommunists attempting explanations based on this premise advance theories which have become "largely transformed and degenerated".²¹⁵ These analysts have failed to realize that the movements in Eastern Europe "produced regimes which are in fact anti-capitalist but which are not socialist".²¹⁶ Instead they are "an abominable caricature of everything socialists

have lived and fought for".²¹⁷

Socialism is in a state of analytic delegitimation for the Budapest School. The Eurocommunists have failed to explain Eastern Europe as a unique historical phenomenon and have, instead, attempted an explanation in terms of authoritarianism or a simple acceptance that the class struggle is incomplete. For example, Fege's work illustrates the idea that Hungary is a socialist state in the midst of completion. She discusses the notion that socialism, by definition, is a historically more advanced phase than capitalism. The nation has not, however, completed the transition to socialism and the proletarian class struggle continues within a base superstructure dichotomy. The economistic method holds true for Fege and she claims that the dialectic is proceeding toward the completion of socialism. It is this type of analysis that is indicative of the mistaken totalization of the Marxian dialectic and if "socialism, as a whole... is to ever transcend its miserable state (it) needs radical self-criticism of what has happened in the last sixty years":²¹⁸

Thus every militant with a will to genuine socialism is confronted with a situation which is far more complex than the first day of the First World War, when socialists whose moral integrity was still intact felt that the idea and the movement had already become hopelessly compromised.²¹⁹

There remains hope in the burgeoning leftist opposition in Eastern Europe. Just as Boris Yeltsin represents leftist

opposition to the regime in the Soviet Union, so do Democratic Socialists, Reform Communists and Democratic Populists represent similar turns in Hungary. The Union for Leftist Alternative (BAL is the Hungarian acronym; in the Hungarian language the word 'bal' means 'left') for example, is a socialist party, definitely leftist in political criticism of Hungary, which has the difficult task of legitimating itself for a population which has seen domination in the name of Marx, Lenin, and Stalin for several decades. The idea that the fall of Marxist-Soviet regimes in Eastern Europe indicates the capitalist victory substantiates such difficulties. There has been, however, a political development of a "better consciousness of what socialism may be, must be" since "the emergence of a leftist opposition in Eastern Europe by its very existence... has compelled some segments of the Western left to face the reality of what socialism is not".²²⁰

The Budapest School approach to existing socialism is critical of the Western Eurocommunists as well as Eastern European societies. These thinkers maintain the necessity of a new approach to Eastern European analysis; one which attempts to define the activity of Soviet societies apart from (the authoritarian political) Western critiques and the totalizing class analysis method. The Budapest School underlines the idea that there is no historical precedent for the political and economic phenomenon of Eastern European societies. The formerly Soviet societies must be treated as

unique in the historical unfolding of the region. The critiques of capitalism and existing socialism culminate in the prescription for the mixed economy of the radical democracy alternative.

RADICAL DEMOCRACY:

We have established that the Budapest School believes that transcending capitalism does not mean transcending bourgeois society. The importance of the idea of the free individual must be preserved in the manifestation of bourgeois society and the productive capacity maintained but the stratified political relations inherent in a capitalist structure must be left behind. It is here that the Budapest School makes the break from free market advocates such as Szelenyi in that the mixed economy of a radical democracy ensures the existence of a "non-capitalist civil society divorced from the state... (with) the features of the capitalist system... no longer the primary resource allocating principles".²²¹ A major step in such a restructuring is the "positive abolition of private property".²²² This is the greatest split from Western mixed economies, recommendations by liberal theorists such as Szelenyi and Kornai, and free market reform advocates; all of whom view the relations of private property as indicative of dynamic production. Radical democracy of the Budapest School necessitates its own version of a mixed economy which attempts to transcend capitalism and

the relations endemic to such a system through a democratization of the relations of production.

The mixed economy of the Budapest School involves "the separation of state and civil society" and the "important and efficient... use of markets... for the recognition of all needs in a radical democracy".²²³ This radical democracy involves a set of ethical considerations which guides the implementation of the mixed economy. "A radical democracy would necessitate the democratization of the Western mixed economies' stratified power structure".²²⁴ The limited resources of society requires a certain degree of state intervention in order to distribute these limited resources based on the idea that there must be an equal recognition of the needs of all people. Radical democracy suggests that humanity be liberated from certain authoritarian impositions and guided by other external constraints in order to ensure the fulfilment of equal self-determination. There is a necessary liberation required to achieve the objectives of freedom and need fulfilment in this society.

The 'liberation of humankind' cannot possibly mean liberation from all kinds of constraints... it cannot mean liberation from all kinds of authorities, norms and duties, only from specific kinds of external authorities, norms and duties.²²⁵

The unequal distribution of goods and opportunities within a stratified society can be changed through the creation of rules and norms; a society in which "everyone

could equally participate in the process of conflict-solving".²²⁶ In order to do so there must be a commonly recognized set of ethics. These ethics or "'moral maxims' provide... (the) foundation for political practice in a radical democracy".²²⁷ The three moral maxims adhered to in the Budapest School's radical democracy model are freedom, justice, and an end to suffering. They believe that these values have historically evolved throughout humanity's development and have been repressed through the inequalities generated by capitalist and soviet societies. Any such expression of these values presuppose the participation of 'good citizens'.²²⁸ This Aristotelian notion of 'good citizens' cooperating to maintain the proper functioning of a participatory democracy necessitates the acceptance of equal self-determination. "Freedom and justice together comprise equal self-determination; moreover this value must become a norm for everyday life".²²⁹ Following this acceptance there can be a society which guarantees the expression of equal self-determination. "The acceptance of the three moral maxims for ethical behaviour would not eliminate conflict in a radical democracy but would provide social stability".²³⁰

In the discussion of the critiques of capitalism and soviet societies it was established that the Budapest School believes that bourgeois society cannot be transcended. The principal reason for this in terms of the radical democracy model involves the maintaining of a separate sphere of civil

society which is a "fundamental defining feature of a mixed economy".²³¹ The capitalist system is no longer the main allocating system in the mixed economy. The existence of a non-capitalist civil society remains "in order to preserve individual freedom... while simultaneously eliminating the inequalities of capitalism".²³² The features of bourgeois capitalist society are not eliminated in the Budapest School's model; they are instead subject to the social goals of equal distribution.

The example of wage labour discussed in Brown's work illustrates the way in which this is accomplished. "Wage-labour and capitalist become 'roles' played by the same individual"²³³ thereby eliminating the opposing roles among individuals. This is a form of self-management in which workers participate in greater degrees of decision-making in the operation of the productive unit in which they work. The freedom of the individual is maintained along with the "dynamism of production".²³⁴ The direct democratization of the economic and productive spheres characterizes a mixed economy in which there is a "positive value of ownership... based on two factors."²³⁵ The first is the "rational administration of property as the source of the rational satisfaction of needs" and the second is "the **direct** relation of decision-making to ownership".²³⁶ Thus wage-labour is a self-imposed and self-regulating system of production ensuring democratization in the economic sector.

The democratization suggested by these thinkers involves a number of necessary structural changes in the East-Central European region. The dissident members of the Budapest School experienced a cohesion and coalescence of their work in Towards a Radical Democracy which was published in 1988 and gave a clear description of their ideas. The proposed mixed economy necessitates two historical events which appeared highly unlikely at the time of the publication of the various critiques and suggestions. The difficulties experienced by Gorbachev and the Soviet Union were not thought to be severe enough to provide the impetus for the eventual troop withdrawal from Eastern Europe. The Soviet evacuation of the region nevertheless was achieved and thus the first historically necessary condition for the realization of the goals of the Budapest School was also realized.

The second condition involves the power circle of Janos Kadar. He was deposed in 1988 after ruling the nation through the Hungarian Socialist Workers Party since the sabotage of the 1956 revolutionary democracy. The coincidence of these two factors occurred earlier than many analysts expected and free market reforms and private capital infusion is happening just as quickly. The time of historical flux is ripe for the thinkers of the Budapest School in that they are able to attempt implementation of their democratization of the relations of production in Hungary; a society with the centralized state apparatus and the steady flow of capital

necessary for the mixed economy of a radical democracy.

CONCLUSION:

East European societies cannot be described through a pot-pourri of pre-capitalist, capitalist and post-capitalist characteristics; they represent an integral social system. That is, they are capable of reproducing themselves in all their strains and contradictions.²³⁷

The Budapest School has the main objective of providing a new perspective for Eastern European analysis. They begin with the premise that neither Western liberal nor Eurocommunist analyses have produced sufficient insight on the region to be able to prescribe and recommend a course of action for political, economic and social policies. Western ambivalence has long been an accepted fact of political analysis even among the thinkers studying the region themselves.²³⁸ It is this malady that the Budapest School attempts to remedy.

The three specific areas of contention for these thinkers are the critiques of capitalism and socialism, and the resulting prescription for the mixed economy of the radical democracy. The two critiques are highly specific political histories of Soviet societies and Western capitalist formal democracies, respectively, leading to a discussion of a mixed economy. They reject the totalizing of economism as they maintain that capitalism is a stratified society with a

hierarchy of power and can not be explained solely through a class struggle dialectic. They ask that existing soviet societies be analyzed apart from a totalitarian critique and be recognized as a derivation of what they believe is an incorrect application of Marxian ideas. The complexity of the Eastern European region necessitates a discussion based on the acceptance of the idea that the problems experienced in these nations are unique; unique enough to warrant a specific recommendation of a mixed economy.

The radical democracy alternative of the Budapest School suggests that the relations of production be democratized. The prescription is premised on the idea that each individual has the right to participate in the decision-making processes of their respective lives. This can not occur in existing capitalist or soviet societies. There must be a central authority which guarantees the right to participate in these processes as well as a sector of society which maintains the dynamic productive capability of capitalism. Post-Kadar, post-communist Hungary has experienced political changes which may provide for such social modifications.

The Budapest School has maintained the tradition of Lukacs and this is its greatest failing. The analysis of capitalist political and economic relations concludes with the need to preserve the productive capacity in order to fulfil the needs of all individuals equally. These needs are to be

guaranteed by a governing body along with freedom, justice and equal self-determination. These concepts are simply huge and just as Lukacs concerned himself with such large abstractions, so do the thinkers of the Budapest School. It is difficult enough just to agree on a definition of these concepts and increasingly difficult applying them to specific political and economic policy reforms.

CHAPTER FIVE:

CONCLUSIONS AND SUMMARY:

The purpose of this work has been to discuss and present a set of approaches to Hungarian political and economic adjustment in the post-Kadar era. The three schools have been defined according to the political and economic history of Hungary as a separate entity from the Eastern European Bloc. From this starting point the thesis has examined how each approach has addressed political and economic change in the post-Kadar post-Communist period in Hungary. The first approach is the direction of the post-Kadar post-Communist Hungarian government. This involves an attempt to track political change during the period between the May 1988 ousting of Kadar to the end of 1990. The second approach involves free market pressures from a number of different sources. These analysts seek to bring Hungary a market system based on a supply and demand relationship between commodities produced and goods bought. In some cases this includes a radical reduction of regulations on the movement of goods, services and capital. The third approach involves the Budapest School's attempt to restructure Hungary based on a certain reading of the history of the former Eastern Bloc nations. This includes critiques of Western Capitalism and Soviet Communism, and the proposal for a mixed economy based on their radical democracy alternative.

There are a number of similarities which run through all

three approaches. The main point which each approach agrees on involves the idea that there must be a system of economic relations in place in Hungary which maintains some form of a free market system. The government response since May of 1988 has been to support and encourage private investment from domestic and foreign sources. There are few political factions in post-Kadar Hungary which would disagree with the need to produce goods at such a rate as to bring greater domestic prosperity and welcome acceptance from the Western European powers. Western free market advocates assume that removing restrictions on production and consumption will create a more efficient economy, and that the work culture must first be overcome to achieve this goal. Some Eastern European analysts assume that a free market is an inevitable consequence of emerging political strains in the European theatre and argue that such a system should be allowed, encouraged and mildly regulated. The Budapest School recommends the restoration of economic relations in Hungary which allow a relatively unrestricted movement of goods and services. They seek to take free market prescriptions a step further, however, by attempting a democratization of the relations of production. These thinkers agree that the productive capability of a free market system is valuable but only if the individual workers involved are able to make the decisions of production. Thus all three approaches agree that economic and political relations in Hungary must move away

from the Soviet model of production quotas and toward some form of free market relations.

This thesis has exposed a number of significant differences as well. The main point of contention among the three approaches involves the relationship between the economic sphere and the political sphere. This means that while all three approaches agree on a free market structure in its most general sense, each approach demands significantly different levels of political or government intervention.

The post-Kadar Hungarian government has approached the problem of adjustment differently from both free market advocates and the proposed radical democracy alternative of the Budapest School. True to form they have navigated through the middle ground of unregulated capitalism and radical democracy. The regulations surrounding the political and economic spheres in Hungary have changed since May of 1988. But, there is neither an unrestricted flow of capital nor is there an economy in which the workers make decisions on all production issues for the marketplace. The priority of the post-Kadar government for the period under discussion has been explicitly stated as a gradual rationalization of wages and prices on the Western European market. Those political factions awaiting an unregulated free market did not see their preferred vision come to pass at the end of 1990 as Hungarian voters and policy-makers worked toward moderate reforms. Such is the case for social democrats and reform socialists

awaiting democratization of production relations in a mixed economy akin to the Budapest School proposal.

Some of the Western free market advocates, such as Cole, assume that the Hungarian work culture is such that there must be restrictions placed on people rather than capital in order to ensure the transition from the Soviet model to Western-style capitalism. The innate efficiency of Western capitalism is assumed to be able to take care of any other problems of adjustment. Thus Western free market advocates seek to implement economic reforms that mirror the capitalist structure in the West and assume that this will create an efficient system in Hungary as well.

Hungarian free market advocates such as Szelenyi operate on the assumption that a free market is **inevitable** rather than **necessary**. This leads to prescriptions involving the encouragement and maintenance of private enterprise begun two decades previously and the attempt to work with tools readily available. This means that they reject attempts at radical restructuring or high levels of capital infusion known as shock therapy.

The Budapest School is significantly different from the free market advocates in that there is a demand to restructure Eastern European society based on specific criticisms of Western capitalism and Eastern European Communism. They believe that a capitalist economy operating on a free market system of supply and demand must be maintained for its

productive capabilities. There must be a radical restructuring, however, which politicizes the economic sphere to allow workers to make decisions on the production of goods for the marketplace. For the Budapest School, restrictions must be placed on the market in order to make the economic sphere directly responsible to the workers who produce goods for it. Thus the supply and demand relationship ensures a large **productive capability** rather than an efficient and responsible system.

There are some positive and negative aspects to each approach. The response of the Hungarian government has been positive in that there has been moderation. Regulations on the flow of capital, lack of political purges of old elites, and the popular support for parties calling for a gradual return to Europe, demonstrates the commitment to moderation and the patience of the policy-makers and the voters during the early post-Kadar period. The free market advocates' recognition of the existence of a distinct and unique set of values held by Hungarian workers is an important and helpful analysis. So is the recognition of the comparatively large productive capacity of a capitalist system of political and economic relations in terms of the creation of goods. The notion that such a system is an inevitability for post-Kadar Hungary is helpful in that it demands a focus on the huge effects of Western economic and political influence in post-Communist Eastern Europe. The Budapest School is particularly

valuable in the attempt to create a viable political and economic theory of relations for Eastern Europe in general and Hungary in particular.

There are a number of negative aspects found in each approach as well. The response of the post-Kadar Hungarian government during the period discussed above, from May of 1988 to the end of 1990, has been cautious. While having some of the positive aspects discussed above, this approach has had a few problems as well. For example a relatively small number of elites have moved from previously held positions and in many cases the government has been slow to react to problems.

The recognition of free market productive capability by Western advocates of such a system has been problematic in that the analysis of the Hungarian situation is conducted under Western criteria. The work culture has been mistakenly understood to be anti-capitalist, lacking in entrepreneurial spirit, and most likely utility-function maximizers upon the opening of Hungarian borders. This means that Hungarian workers will have difficulty accepting the supply and demand relationship of a free market economy, will have difficulty creating new business and industry opportunities, and will leave Hungary for better jobs and higher pay given the ability to move across borders. Unfortunately this represents a dangerous misreading of the situation and prescriptions and recommendations based on such conclusions can be harmful.

The fact that Hungarian society was not completely penetrated by a Stalinist Soviet system of political atomization is demonstrated by the almost immediate acceptance of multi-party democracy with little resistance from elites. Private investment and small businesses have been growing under Kadarist policies for decades and there are no studies available to suggest that comparatively large numbers of Hungarians would be, or are prone to, leaving Magyarorszag due to borders becoming increasingly easier to cross. The history of Hungary is such that the borders have been the most open of all the Soviet Bloc during the Cold War. It dangerous to suggest that controls be placed on individuals, and capital be allowed to flow freely across the borders as Kadar's immediate successor, Karoly Grosz, found out.

The Budapest School claims that there has never been an attempt to understand Hungarian political and economic history from an internal regional perspective. There are a number of negative aspects to their claims. For example, these thinkers have engaged in a highly specific neo-Marxist approach to Hungarian history. In the effort to create their own brand of political and economic relations embodied in the radical democracy alternative, these analysts have created a highly abstract set of principles. These ideas include the liberation of humankind through freedom, justice, and an end to suffering. Freedom and justice together mean that there can be equal self-determination and all of these ideas

together comprise a necessary value structure for the Budapest School solution. This is problematic in that such concepts are not simply agreed upon as having a common definition. Ideas of freedom and justice are important guidelines for policy creation, to be sure, but they are imprecise enough to cause difficulties when attempting to create specific policy agendas.

As stated in the beginning of this work, none of the three approaches to changing conditions in Hungary is a complete solution in itself. Each is problematic just as each is helpful in providing solutions. The focus here has been to delineate and define some of these characteristics and wade through an analytically murky and confusing period in Hungarian political and economic history. In doing so this piece may be useful to those seeking to understand the emerging Post-Kadar Hungarian nation.

ENDNOTES

1. Foldes, p.1.
2. Schopflin, p.62.
3. Cole, p.4. Foldes, p.1.
4. Lendvai, p.154.
5. Szitnyai, Z. Hol Van A Nemzet?
6. Kovrig, p.385.
7. Kovrig, p.388.
8. Kovrig, p.90.
9. Ibid.
10. Cole, p.5. 'Shock Therapy' has become a standard name for rapid capital infusion among a number of Eastern European analysts such as Bozoki, Cole, Andrzej Friszke, and Schopflin. Jeff Sachs is an advocate of 'shock therapy' as a solution to Eastern European political and economic problems.
11. Cole, C. 1991. "Political Effects of Marketization in Eastern Europe". Paper presented to the International Studies Association Convention, 22 March, Vancouver Hyatt-Regency.
12. Foldes, K. 1991. "Economic Reorientation of Eastern Europe: The Case of Hungary". Paper presented to the International Studies Association Convention, March 23, Vancouver Hyatt-Regency.
13. Savas, p.288.
14. Schopflin, p.60.
15. Ibid.
16. Ibid, p.61.
17. Ibid.
18. Bozoki, p.211.
19. Ibid.
20. Ibid.
21. Tokes, p.1.

22.Ibid, p.49.

23.Ibid, p. 47.

24.Schopflin, p. 62.

25.Ibid.

26.Ibid.

27.Bozoki, p. 219. Also supported by Schopflin.

28.Schopflin, p. 62.

29.Ibid.

30.Ibid.

31.Bozoki, p. 211.

32.Schopflin, p. 62.

33.Ibid.

34.Ibid.

35.Ibid.

36.Ibid

37.Ibid. This is an excellent illustration of the Hungarian political tradition. Peaceful resolution rather than confrontation is the mark of Magyar political culture. It is here that Western analyses which regard Eastern Europe as a singular entity fail to recognize such important distinguishing characteristics. The ruling Communist Party ended its own rule with virtually no resistance.

38.Ibid.

39.Ibid. See also Bozoki article on the Round Table negotiations.

40.Ibid.

41.Gorbachev, as quoted in the New York Times, October 26, 1989. Taken from Problems of Communism, p. 89, May-June 1990.

42.Op. cit.

43.Ibid.

44.Ibid.

45. Ibid, pp.63-64.

46. Ibid. p.64. This is virtually undisputed and most of the literature supports this view of the political position. Tokes, Bozoki, and Schopflin all agree on this point.

47. Ibid.

48. Ibid.

49. Ibid.

50. Ibid.

51. Ibid.

52. Ibid.

53. Ibid.

54. Ibid, p.65.

55. Ibid.

56. Ibid.

57. Ibid.

58. Ibid.

59. Bozoki, p.216.

60. Ibid.

61. Ibid.

62. Ibid.

63. Ibid.

64. Ibid.

65. Bozoki, p. 228.

66. Ibid, p. 218.

67. Ibid.

68. Ibid, p.219.

69. Ibid.

- 70.Ibid, p.220.
- 71.Ibid, p.221.
- 72.Ibid, p.223.
- 73.Ibid, p.225.
- 74.Ibid, p.226.
- 75.Tokes p.61. Taken from the C.I.A. Directory of Hungarian Officials (July 1990). Tokes writes that one hundred of the top seven hundred positions previously held by old nomenklatura elites have changed hands since May 1990.
- 76.Tokes p. 61.
- 77.Ibid, p.61.
- 78.Ibid, p. 62.
- 79.Ibid, p.62.
- 80.Ibid, p. 62.
- 81.Ibid.
- 82.Ibid, p.62-63.
- 83.Ibid, p. 63.
- 84.Ibid.
- 85.Ibid.
- 86.Ibid.
- 87.Ibid.
- 88.Bozoki, p. 227.
- 89.Ibid.
- 90.Ibid.
- 91.Feher, p. 98. Problems of Communism. May-June 1990.
- 92.Dawisha, K. Eastern Europe, Gorbachev, and Reform. p.202.
- 93.Times-Colonist article entitled "Bank Aims to Put Eastern Europe Back on Track". Section 'C', p.6 April 16, 1991. The Canadian Press news service from London, England distributed the story.

94.Ibid.

95.Cole, p. 5.

96.Ibid.

97.Cole, C. H. 1991. "Political Effects of Marketization in Eastern Europe". Paper presented the International Studies Association Convention, 22 March, Vancouver Hyatt-Regency. This is a common misconception presented by Western analyses in assuming that the Communist Party dominated society more than it actually had. "This is because we all overestimated the penetration, control, and bureaucratic power of the Communist parties in Eastern Europe" states Juan D. Linz in an interview in East European Politics and Societies. Spring 1990, Vol. 4, no. 2, pp.157-8.

98.Savas, p.288. The privatization debate includes most liberal economic theory and operates under the assumption that the free market system will necessarily create political liberalization. See also Lipsey et. al., and J. Sachs argument for 'shock therapy'.

99.Szelenyi, I. "Hungary 1989: Introduction". East European Politics and Societies. Spring 1990, Vol. 4, no. p209.

100.Ibid.

101.Ibid. p.167. In response to the questions on p. 154 "Have the recent developments in Eastern Europe changed your perspective on any of the area's principal political, social, and economic problems? What important issues were sidestepped or overlooked in the commentaries that have come to your attention to date?".

102.Ibid. Original emphasis.

103.Cole, Foldes and Gati for example all agree on the necessity of free market rationalization. This is quite different from the following section which discusses the assumption of the inevitability of economic Westernization.

104.Cole, C. H. "Political Effects of Marketization in Eastern Europe". p.5.

105.Cole, p.3. The wave of black market activity in Hungary is famous for providing household incomes with supplemental earning. Virtually everyone is involved in a huge gratuity or 'tipping' ideology which includes, for example, doctors, construction workers, and various professions.

106.Ibid. p.4.

107.Ibid. p.6.

108.Ibid. p.5.

109.Ibid. p.6.

110.Ibid. p.6.

111.Appendix One in Kovrig, pp. 450-451, and appendices one through four in Foldes, pp. 11-14, support this exactly.

112.Pruss. "Market is the Only Escape" in Eastern European Economics. p. 33. Spring 1990. vol. 28. no. 3.

113.Cole, p.4.

114.Ibid. p.5.

115.The German unification has been referred to as a test case for the meeting of formerly Soviet economies with European Community counterparts. The comparison is of limited use for obvious reasons. The two Germanys speak the same language, East Germany did not experience the prosperity of Hungary during their respective communist years, and the Hungarians have been free to travel for decades.

116.Ibid.

117.Cole. p.1.

118.The Canadian Press. "Poll: Worse Off, But...". The Times-Colonist, April 29, 1991. p.A6.

119.See Lipset et. al. and discussions regarding efficiency. Savas et. al. tautologically discuss privatization as the most efficient method of creating economic efficiency. Whether or not this is true for the West is not the argument here. The argument is that such ideas do not necessarily bring forth the same claimed efficiency in Eastern Europe.

120.Kornai, J. Contradictions and Dilemmas. p.138.

121.Donahue, p. 24.

122.Ibid.

123.Ibid.

124.Klaus, V. p.42.

125.Cole. p.1.

- 126.Ibid. p.2.
- 127.Ibid.
- 128.Matysiak, A. p.39.
- 129.Cole, p.3.
- 130.Kovrig, pp. 450-451.
- 131.Ibid.
- 132.Foldes, p. 13.
- 133.Op. cit.
- 134.Foldes, p.11.
- 135.Ibid, p. 12.
- 136.Ibid, p. 13.
- 137.Ibid, p. 14.
- 138.Deak, I. Responding to the series of questions in the Spring 1990 edition of East European Politics and Societies. p.156.
- 139.Szelenyi, I. "Hungary 1989: Introduction". East European Politics and Societies. p.209. Spring 1990.
- 140.Ibid.
- 141.Ibid.
- 142.Ibid.
- 143.Szelenyi, I. Response to questions. p.167. East European Politics and Societies. Spring 1990.
- 144.Kornai, J. "Socialist Transformation and Privatization: Shifting from a Socialist System". East European Politics and Societies. p.257. Spring 1990.
- 145.Ibid. p.265-272.
- 146.Ibid. p.275.
147. Ibid. p.299.
- 148.Ibid. p.293.

149.Ibid. p. 294.

150.Ibid.

151.Ibid. p. 295.

152.Ibid.

153.Ibid.

154.Ibid. p. 297.

155.Ibid.

156.Ibid. p.299.

157.Ibid. p. 293.

158.Ibid. p. 299.

159.Szelenyi, p.237.

160.Ibid.

161.Ibid, p.252.

162.Ibid. p.304.

163.Ibid. p.304.

164.Deak, I. Interview in East European Politics and Societies. p.154.

165.Kornai. "Socialist Transformation and Privatization". p.300 in East European Politics and Societies. Spring 1990. vol.4 no.2.

166.Ibid. p. 282.

167.Heller, A. The Humanization of Socialism: Writings of the Budapest School. This work and Brown's Towards a Radical Democracy are the only two publications which refer to these thinkers as members of the Budapest School.

168.The Humanization of Socialism includes a greater number of thinkers than Lukacs himself had originally considered and a number of factors have led to the discrepancies of inclusion and exclusion. This work will take the Lukacsian delineation and Brown's reliance on the four main figures who clearly express the critique of capitalism and socialism, and subsequently attempt to create the radical democracy alternative. Markus, for example, fits into this

categorization regardless of his exclusion in The Humanization of Socialization as he directly follows Lukacs and coincides with Ferenc Feher, Agnes Heller and Mihaly Vajda in their respective projects. Szelenyi, as a counter-example, is definitely not a member of the Budapest School in that he advocates the continuation of private property in a Hungarian mixed economy, and rejects the political implications of the Polanyi thesis. This means that Szelenyi disregards the Budapest School demand to politicize the workplace. He believes the negative effects of such a democraticization would lead to similar labour problems already experienced by Eastern Europe under Soviet centralization.

169.Brown. p. 15.

170.Lukacs. 'The Development of a Budapest School'. Times Literary Supplement. p.664.

171.Szelenyi. East European Politics and Societies interview, p. 167.

172.Vardys in Brown, Towards a Radical Democracy. p.16.

173.Brown. p. 17.

174.Deak. interview in East European Politics and Societies. p. 155.

175.Brown, p.68.

176.Ibid.

177.Ibid, p.97.

178.Ibid.

179.Brown. p. 198.

180.Brown. p.94.

181.Ibid.

182.Brown. p. 53.

183.Brown. p.45.

184.Polanyi. p. 132.

185.Brown. p.65.

186.Brown. p. 66.

- 187.Vajda. The State and Socialism. p.143-3.
- 188.Ibid.
- 189.Brown. p. 66-7.
- 190.Ibid. p. 67.
- 191.Brown. p. 67.
- 192.Vajda. p. 143.
- 193.Brown. p.53.
- 194.Heller. 'Past, Present and Future of Democracy'. p.869.
- 195.Brown. p. 69.
- 196.Brown. p. 70.
- 197.Heller. 'The Dissatisfied Society'. p.369.
- 198.Ibid. She goes on to state that "even the satisfaction of the so-called spiritual needs presupposes a certain amount of material investment" given that the production of books and pianos require such attention.
- 199.Heller. On Instincts. p.3-4.
- 200.Brown. p. 89.
- 201.Ibid.
- 202.Brown. p. 106.
- 203.Ibid. p. 107.
- 204.Ibid. p. 106.
- 205.Brown. p. 98.
- 206.Ibid. p. 99.
- 207.Ibid. This theory simply states that soviet societies are the result of authoritarianism, usually in the form of Soviet occupation, in the region. This is insufficient as an explanation, however, as the complexity of the political structures of the region maintain a huge variety of characteristics which are the result of many different political, economic and social forces. Attributing the entire social formation of Eastern Europe to Soviet occupation is akin to attributing North American social formation to a

single dominant political or economic force.

208.Ibid.

209.Ibid.

210.Feher and Heller. 'Forms of Equality'. p. 12.

211.Brown. p. 86.

212.Ibid.

213.Brown. p. 131.

214.Brown. p. 106.

215.Feher, Heller and Markus in Brown. p. 106.

216.Ibid.

217.Ibid.

218.Ibid. p. 106-7.

219.Ibid. p. 106.

220.Markus. 'Western Marxism and Eastern Societies'. p.293.

221.Brown. p. 161.

222.Brown. p. 139.

223.Brown. p. 155.

224.Brown. p. 146.

225.Heller. 'Marx and the "liberation of humankind"'. p. 369.

226.Brown. p. 147.

227.Ibid.

228.Ibid.

229.Brown. p. 147.

230.Ibid.

231.Brown. p. 157.

232.Brown. p. 159.

233.Brown. p. 161.

234.Vajda. The State and Socialism. p. 34.

235.Brown. p. 167.

236.Ibid.

237.Markus. 'Western Marxism and Eastern Societies'. p. 315.

238.Dawisha and Gati for example have established their reputations as Soviet and Eastern European political analysts. Both have admitted the difficulty faced by their field in terms of the Western prescriptions for Eastern problems and various extended problems. See Dawisha Eastern Europe Gorbachev and Reform and Gati Hungary and the Soviet Bloc.

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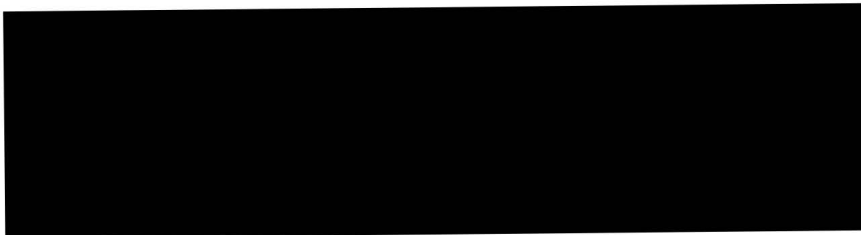
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