Reform and transformation in Eastern Europe

Soviet-type economics on the threshold of change

Edited by János Mátyás Kovács and Márton Tardos

ROUTLEDGE
London and New York

IN ASSOCIATION WITH THE INSTITUT FÜR DIE WISSENSCHAFTEN VOM MENSCHEN, VIENNA

First published 1992
by Routledge
11 New Fetter Lane, London EC4P 4EE

Simultaneously published in the USA and Canada
by Routledge
a division of Routledge, Chapman and Hall, Inc.
29 West 35th Street, New York, NY 10001

Typeset in Times by Selectmove
Printed and bound in Great Britain by
Mackays of Chatham PLC, Chatham, Kent

British Library Cataloguing in Publication Data

Reform and transformation in Eastern Europe:
Soviet-type economics on the threshold of change.
I. Kovács, János Mátyás II. Tardos, Márton
330.9470853

ISBN 0–415–06630–1

Library of Congress Cataloging in Publication Data

Reform and transformation in Eastern Europe: Soviet-type economics on the threshold of change / edited by János Mátyás Kovács and Márton Tardos.
p. cm.
Includes bibliographical references and index.
ISBN 0–415–06630–1
1. Europe, Eastern – Economic conditions – 1989– 2. Europe, Eastern – Economic policy. 3. Soviet Union – Economic conditions – 1985– 4. Soviet Union – Economic policy – 1986– I. Kovács, János Mátyás. II. Tardos, Márton.
HC244.R3757 1992
338.947–dc20 91–25207
CIP

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Compassionate doubts about reform economics (economic science, ideology, politics)*

János Mátyás Kovács

> Most of us are more impatient to do good, and probably we are not sanguine about our ability to engage usefully in full time scientific work. Nor, perhaps, are we wholly satisfied with what Samuelson calls our own applause . . . I concede to Samuelson, nevertheless, that to a scientist educated hands make more melodious applause than ignorant hands, but too often the educated hands seem to be sat upon by educated asses.
>
> G.J. Stigler

Reform economics – what is this supposed to mean? More exactly, what *was* it supposed to mean during the last thirty to forty years in Eastern Europe until the end of the 1980s?[1]

Let us depart from what the socialist economic reformers themselves used to say about the boundaries of their own discipline. As a rule, they placed the Stalinist political economy of socialism at one end of the spectrum, while at the other, there remained in the last analysis two taboos: large-scale private ownership and multi-party democracy. In an attempt to marketize the planned economies, the reformers tried to combine certain principles of collectivism and liberalism under real (Soviet-type) socialism. The reform concepts were based on what I will call below the '*plan-and-market discourse*'. In this discourse, the order in which the socialist reformers put the terms 'plan' and 'market', as well as the conjunction 'and' between them, have far-reaching effects on the scholarly features of the discipline.

What follows is a sketchy overview of this peculiar field of economic knowledge as seen by a student of the history of economic thought. In the first few pages I draw the main contours of the self-image of the reform economists; then some doubts are raised about the composition of this portrait; finally a rearrangement of the picture will be suggested.[2]

A SCHOOL THAT LEARNS BY DOING

Let us assume that reform economics did exist, that is, that in the 1980s, socialist reforms had a coherent scientific economic theory. Seemingly, this is not a risky assumption. In Hungary, Poland and Yugoslavia, but from time to time also in Bulgaria, China, Czechoslovakia and the Soviet Union, a great number of intellectuals declared themselves reform economists, reformers or reform makers during the past few decades. Official representatives of central economic policy, as well as quasi-independent academics, professed to be engaged in the development of reform concepts. They often designated their opponents as followers of the 'counter-reformation'. In the reformers' camp the only distinction that was usually made was between the moderates and the radicals. Thus, even some members of the political opposition could be somehow classified under the heading of proponents of reform economics. Since some of the Communist Parties in Eastern Europe have started referring to themselves as 'reform-parties', this language became so binding and the word 'reformer' so inflated that even the blatantly anti-reform moves had to be wrapped in pledges of allegiance to the cause of socialist reforms.[3]

'I am a reform economist' – one might proudly and publicly introduce himself as such, for instance, in the Hungary of the 1980s, be one a cabinet member, a fellow of a research institute or a manager of a firm. He could, of course, add: 'I am a socialist (Marxist)', but this confession was outmoded and not compulsory. It was not a case for criminal investigation. You did not say: 'I am a Marxist political economist and not (or not primarily) a reform economist'. Even those few hard-liners who quarrelled with radical reformers every now and then, rarely questioned the scholarly nature of the reform concepts as vehemently as in the debates beteween *tovarniki* and *beztovarniki* over the last seventy years in the Soviet Union, or at the end of the 1950s in Hungary. (To avoid misunderstandings, let it be said that until the last few years it has also been against the etiquette to proclaim aloud: 'I am a liberal reformer but no Marxist'.)[4]

By the 1980s, economics had a large – in many respects predominant – reference group in the reformist countries of Eastern Europe, which was distinguished by a kind of cohesion (scientific?, ideological?, political?). Since the members of this group were very productive at every level of activity deemed scholarly (from writing new textbooks on the political economy of socialism, all the way to elaborating the 'scientific principles' of actual reform programmes), with short breaks for more than thirty years, there was no reason to dispute their right to belong to the *school of reform economics*. At least there was none from the point of view of the sociology of science.

Economic reformism appeared to have tangible results: reform projects seemed to keep their promises even in the most exotic economies of real socialism when the dysfunctions of the planned economy called forth

liberalization packages in order to prevent deep crises and accelerate modernization. Accordingly, reform economics as a *programmatic* doctrine looked justified in the international arena. If the patient was getting better, it was the reform that cured him; but if he had a relapse (as in Hungary, Poland and Yugoslavia in the last decade), it was definitely the under- and not the overdose of the 'reformed medicine' that led to the recurrent crisis – or so the reformers said.[5]

Beyond the normative roles (such as the selection and harmonization of economic objectives and means – *nota bene*, in the beginning reform economics called itself praxeology, too), reform economists also undertook other tasks of social science. They sometimes even considered the critique of Stalinist political economy, as well as the empirical description and the logical explanation of how a socialist economy worked, more important than the devising of new stabilization policies or means of deregulation.[6]

The emphasis on criticism was to underline the *innovative* capacity of reform concepts, distancing them from the mighty predecessor and rival, the Stalinist political economy: to praise cool-headed scientific analysis over romantic Utopias of communism, empirical realism over empty generalizations, such as the 'objective laws of socialism', logical verification over constant reference to sacrosanct authorities, and the understanding of the complexities of economic systems over the twists and turns of dialectical materialism. Reform concepts were assumed to represent reason rather than belief, to tell the truth instead of mixing glaring lies with a conspiracy of silence.

Hence, reform economics reckoned itself not only as a distinct theory imbued with moral superiority, but also as a branch of knowledge embodying a higher level of scholarly sophistication and enlightenment. The inevitable comparison with Stalinist political economy gave the impression that reform theories included so many new scholarly thoughts that one could rightly speak, and not merely in a sociological context, of the birth of a new school (programme, paradigm) of economic science. Consequently, both as the only doctrine criticizing Stalinist economics from inside (economic revisionism), and as a scenario prescribing the ways of transition to a market-type model of planned economy (economic reformism), reform economics seemed to deserve a special chapter in future textbooks on the history of economic thought.

The theorem of superiority over Stalinism was supplemented by the image of *growing sophistication* in economic science: the theory of reform was supposed to proceed towards deeper scientific cognition in a learning process of varying pace and structure but of fixed direction.[7] Originally, this pattern of evolution was not constructed for Soviet-type societies only. Frequently, it also included the 'cosmopolitan' values of progress and modernity. According to the original expectations of its disciples, reform economics would help the socialist economics join the mainstream of world economic development in a way that the experiments of deStalinization (democratization) in Eastern Europe – as if in remuneration for the techniques of marketization borrowed from the west – would serve as a remedy for the social maladies of the advanced industrial societies. Thus, providing patterns might raise reform economics to the highest levels of normative economic science in the world: by carefully composing the theory of 'socialist market economy', reform economists could refine the scholarly principles of 'social market economy' (or of any type of mixed economy).[8]

In fact, this was a new – softer – version of the old hypothesis of convergence. While in the 1960s there had been scholars in the west emphasizing the *actual* convergence of the 'first way' with the 'second way', that is, the increasing regulation of market economies with the deregulation of state economies, as of the early 1970s, there were some in Eastern Europe who only believed in the *theoretical* possibility of the 'third way'. This was supposed to attract those scholars, both in the East and the West, who would expectedly grow disillusioned with the neo-liberal fashion of the time.[9]

Surprisingly enough, many reform ideas remained within the framework of Marxism (and Leninism, cf. the analogy of the NEP) as far as the revealed intentions are concerned, but undoubtedly even much farther. In the 1960s, reformism – at least in its degree of anti-Stalinist fervour – was still inseparable from neo-Marxist tendencies (in Hungary from the Lukács school of the 'renaissance of Marxism', in Yugoslavia from the Praxis group, and so on). After all, one could until recently observe attempts at restoring this 'winning combination'. So the conspicuous 'secularization' of reformist thought in Eastern Europe during the 1970s and 1980s notwithstanding, it would be too much to characterize the reformers as '*closet capitalists*' – a phrase still appearing in western publications. It was mainly unreconstructed socialists or sober pragmatists – and not secret agents of capitalism – who were crouching in the reformist closet. Until the end of the 1980s they did their best to invent clever techniques of (simulated) marketization which did not blanketly call into question the primacy of state ownership and one-party rule.[10]

AUTHENTICITY, SCHOLARLY EVOLUTION, SYNTHESIS: THE IMPERFECTIONS

Unfortunately, until 1989, the gradual process of enlightenment in Eastern European economics did not bring with it a genuine discussion of liberalism, in which the reform economists would have been faced with liberal economic science in the west. Reformers were usually challenged by critics who combined neo-Stalinism with new-leftist ideology or welfarist social policy considerations.[11] Consequently, reform economists had to defend themselves against the charges (often quite primitive ones) of excessive rather than insufficient liberalism. This kind of accusation was not difficult to refute by referring to the fact that (1) the ominous closet

capitalism of the reformers was intended to avert the 'worst', because it was to prevent collapsing Stalinist-type socialism from turning into full capitalism; and (2) reformism in itself did not create new 'anti-socialist' phenomena but rather made those of Stalinism visible.

So, scepticism in reformist circles concerning the scientific relevance of reform economics could only flow from two other sources: from the exhaustion of all major practical possibilities of reform-making under real socialism; and, in connection with this, from the emergence of a more radical doctrine aiming at the liberalization (privatization and democratization) of Soviet-type economies and polities.

As regards my doubts, let's follow this train of thought:

(a) First, some historical facts are collected to witness the *inhibited evolution* of reform economics as a science.
(b) Then I will ask whether it would have been at all logically possible to construct a scientific theory of 'socialist economic liberalism' (market socialism) as a new paradigm of economic thought. Or the reformers could not realistically expect to create more than a kind of '*borderline-case economics*' that examines phenomena atypical in 'normal' market economies.
(c) Finally, let us leave economic reasoning aside and consider reform economics as a mix of economic, ideological and political doctrines. In an attempt to find a political (sociological) interpretation, reform economics will be defined as a '*middle-of-the-road*' *theory of transformation*.

Without basic works

Dealing with reform concepts, one immediately comes across the problem of delimitation. This field of knowledge appears to refrain from any firm designation. The invention of the general and value-free term of 'reform economics' did not always consign to oblivion such old euphemisms as the 'theory of the economic mechanisms', the 'dialectics of plan and market' or the 'concept of regulated market'. At the other extreme, even such high-sounding phrases as 'revolutionary reform', 'self-managing market socialism' or 'third way' did not necessarily cover attempts at fundamental liberalization of the planned economy.[12] True, speaking modestly about decentralization, indirect control, self-management, and so on, instead of demanding private ownership and multi-party democracy, may have stemmed from intelligent caution. In such cases the historian is used to taking the basic texts of the school under survey to clear the underlying notions of the theory.

But where are these works to be found? As is known from the few case studies of early reform thinking in Eastern Europe, during the 1950s and 1960s, the economic doctrines of 'revisionism' did not converge into a well-identifiable school of economics embracing the whole region. Oskar Lange and his disciples in Poland, the 'optimal planners' (the so-called 'computopianists') in the Soviet Union, the first self-management theorists in Yugoslavia, the 'naïve mechanizers' in Hungary in the second half of the 1950s, and later, between 1964 and 1968, the architects of the simultaneous economic reforms in Moscow, Belgrade, Prague and Budapest, borrowed most of their theoretical munition from three thin books (Kornai's *Overcentralisation in Economic Administration* (1959), Brus's *The Market in a Socialist Economy* (1972), originally published in 1961, and Šik's *Plan and Market under Socialism* (1967)) as well as from a number of journal articles.

These books and their authors were influencing each other rather weakly (the translations were lacking or completed very slowly, the scholars did not have the chance to communicate with each other, and so on). As a result, the few cross references did not reflect real scholarly discussions. There was, for instance, virtually no opportunity for the Soviet mathemetical economists to be convinced say, by the market reformers of Poland or Hungary; the views of the proponents of the *Neues Ökonomisches System* in the GDR did not affect the ideology of self-management in Yugoslavia, and so on, not to mention the low level of domestic scientific debate in the individual countries, for example, between the followers of mathematical and verbal economics. Ironically, a kind of synthesis was more often reached by the 'official samizdat' publications, that is, by semi-confidential overall reform programmes compiled from the materials of dozens of expert commissions which were in charge of preparing reform packages for the politicians.[13]

If we search for the *magnum opus* (or *opera*) of reform economics in the 1970s and the first half of the 1980s, we find that the 'egalitarian' nature of reformist literature did not change. A vast amount of short papers criticizing the reversal of the economic reforms started in the 1960s and supporting new reform initiatives, a great advance of more empirical than abstract-analytical studies of how a pre-reform and a partially reformed economy work, but no bestsellers of synthetical (in other words, descriptive *and* normative, empirical and analytical) reform economics – this may be a brief inventory of the last two decades of economic thought in Eastern Europe.[14]

Furthermore, virtually no aid was rendered by western colleagues or accepted by socialist reform economists in this period. Astonishingly, Ota Šik's work on the *Third Way* (1972) or the series of essays published by Włodzimierz Brus about the theory of reform (all written in political emigration) had only limited effect upon economic thinking in Eastern Europe in the 1980s. Even the thought-provoking attempt made by Alec Nove at constructing *The Economics of Feasible Socialism* (1983) had almost no impact on the reform theorists. I think that much more than the old evil of provincialism was involved here. Reform economics was actually lacking the basic works even outside the sphere of Soviet-type

socialism. There was hardly anything to import from western 'reformers': not only because the reform-minded émigrés coming from Eastern Europe were usually not able to display a much higher level of scholarly sophistication than what they had shown during the 1960s; but also because when they nevertheless logically progressed further, they went beyond the permissible ideological and political limits of reformism under real socialism in the question of pluralization of the property rights and the political structure.[15]

To avoid misunderstandings, I do not regret the absence of a *Das Sozial* (the socialist equivalent of Marx's *Das Kapital*), which so many Marxists expected to be written as soon as 'the socialist production relations mature'. I only would like to point to the apparent lack of synthetic works on the economics of reforming the Soviet-type systems. (Synthesis, of course, does not inevitably require the compilation of thick volumes.)

It was, perhaps, not quite accidental that János Kornai, a scholar who (a) had embarked upon a reformist critique of the planned economy in Hungary as early as in 1956; (b) has since then learnt what economic science means in the west; (c) was working in a country where reformism turned into a quasi-legitimate ideology, did not show much interest in formulating a coherent theory of reform based on the combined message of his 'overcentralization' and 'anti-equilibrium'. Instead of providing an ideal model of the future economic system and a critique of its alternative theories, rather he kept insisting in his *Economics of Shortage* (1980a) published nearly a quarter of a century after *Overcentralization*, on the study of how a socialist economy *was* constituted and not of how it should have been. In an attempt to describe and explain the Soviet-type economic system, he constructed valuable analytical instruments that could be used by the reform economists in formulating their proposals, but he hesitated to perform a thorough *empirical* analysis of the economy and – until the second half of the 1980s – to make comprehensive *normative* statements about the ways and means of radically changing it.[16]

Yet the very concept of the shortage economy presupposed the acknowledgement of the economic advantages of non-shortage ones. Thus, Kornai's work was, in principle, not devoid of normative models referring to western mixed economies, even if he did not idealize their market (in particular, private market) elements at that time. So why not simply assume that a non-shortage economy could not be conceived with scholarly rigour in the framework of even a radicalized version of reform economics? Why not assume that under the constraints of the prohibition of large-scale private ownership and multi-party democracy there was no room for making a synthesis in reform economics? Because – even if the reformers had been able to describe and analyse the actual state of the economy over the decades of real socialism – for the lack of specification of its future state (cf. the ambiguous concept of the *Third Way*), they would have been unable to postulate the ways of transition to that state.[17]

Speculative institutionalism

Coming back to the delimitation problem, in the absence of the 'prophets', the 'Bible' and the 'catechism', the Eastern European literature of reform economics looks in retrospect extremely *fragmented, unbalanced* and *eclectic* from the point of view of the different fields of economic theory and periods of time. The reform ideas were in most cases pigeon-holed into thematic subcategories (price policy, wage control, investment regulation, and so on); the description of the economic system to be reformed was frequently confused with normative statements about the reform process itself; and the numerous 'vice-prophets' came as often from academic circles as from the sphere of politics or business administration, not to mention the mass media and the *belles-lettres*.

The prophecies were uttered on very different levels of scholarly abstraction and quality. So it is doubtful whether, when building up the definition of reform economics, one could use the bricks of 'internal consensus' and 'dominant discourse' without the mortar of reformist rhetoric. Quite possibly, in the case of socialist reformism these terms of the sociology of knowledge first of all meant a generally-accepted minimum of ideological and political solidarity, while the common domain of economic scholarship was practically confined to a couple of golden rules (tacitly accepted on the basis of day-to-day experience) of how to deregulate the 'old mechanisms' (material incentives, enterprise autonomy, indirect financial control, and so on) within the limits of reform thinking.

No doubt about it, this common domain could be defended with a greater or lesser degree of persuasiveness (cf. Kornai's 'naïve' and 'radical' reformers); its boundaries, however, did not expand proportionately. The 'Hungarian school' of reformism, for example, was never united even in its critique of the Stalinist state (compare, for example, Tibor Liska's animosity with Márton Tardos's tolerant attitude towards nationalization – both economists belonged to the radical reformers' camp). Its disciples were probably even more divided when it came to designing the animators of the future plan-market models (cf. Liska's independent entrepreneurs, the managers of state holdings advocated by Tardos, or the self-management bodies envisioned by Tamás Bauer – again, all authors were regarded as radicals). The same applies to Aleksander Bajt and Branko Horvat in Yugoslavia, Gennadii Lisichkin and Nikolai Petrakov in the Soviet Union or Václav Klaus and Karel Kouba in Czechoslovakia to quote some names at random.[18] One could assume that consensus was strongest in examining the malfunctions of what was between the past and the future, that is, the economic system being reformed . . .

However, one does not have to be a German schoolmaster to expose the surprising imperfections even in what was called the 'theory of economic mechanisms', a broad field of reform economics which was claimed to

be the most advanced, as opposed, for instance, to economic policy research. (As regards the latter, the reformers readily admitted that their general critique of forced industrialization and autarchy, a pioneering work started back in the 1950s, was not followed by subtle proposals for demand management, income distribution, structural policies, stabilization of economic growth, and so on.)

Examining the reformist theory of the mechanisms (a strange umbrella concept that included both planning and market institutions), one could always find large gaps in the survey of basic rules of the economic game in a Soviet-type society. There were big holes in the description and analysis, not only of the upper echelons of economic guidance (political interventionism, interdepartmental bargaining, relations with the Soviet-Union, and so on) where research was effectively hindered, but also of the mezzo- and microeconomic levels. Here, I am afraid, the accumulation of a huge amount of empirical information resulted in neither an appropriate *analytical* clarification of a series of basic categories used by reform economists (plan bargaining, campaign, administrative market, sectoral management, responsibility for supply, propensity for centralization, and so on), nor in the adjustment of these categories to the analytically more elaborated concepts of shortage, investment cycles or shadow economy. In this context it is perhaps an overstatement, quite often made by Soviet economists, that Kornai's *Economics of Shortage* (1980a) would provide a systematic macroeconomics of real socialism.[19]

Filling the gaps in the understanding of how the economic mechanisms work was not necessarily hampered by old socialist taboos such as bankruptcy, unemployment, capital market, import liberalization, and so on. The fact that you were not allowed to think about, for example, the economic advantages of unemployment, did not have to prevent you from analysing the roots of overemployment. In the field of comparative socialist systems, however, diplomatic caution did considerably inhibit scholarly research. The first comparative studies of the history of economic mechanisms in Soviet-type societies were only published in the 1980s, accurately reflecting the sluggish progress of scientific inquiry.[20]

Still, sluggishness in most other fields was rather due to the methodological approach taken by the reform economists. The examination of the economic mechanisms by the reformers, who had been organically rooted in a Marxist way of conceptualizing interests, organizations, power relations, and so on, began along the lines of *institutionalist* thinking. More exactly, it was a peculiar – let us say, a '*speculative*' – kind of institutionalism. Its means were often not empirical enough to comprehend economic behaviour, yet in many cases too empirical to make use of the abstract-analytical apparatus of modern economic science.

As a consequence, there emerged a large set of 'soft', pseudo-abstract categories such as plan, market, self-management, commodity-money relations, enterprise autonomy, economic mechanism, material incentives, centralization–decentralization, and so on, which governed reformist thought in interpreting and predicting the behaviour of economic actors. These categories were, on the one hand, often inoperational if not empty (cf. the never-ending reproaches of the legal experts to the reform economists); and on the other, subanalytical, should they be compared even with the first Lange model, the main concepts of which were at least mathematically compatible with one another.[21]

Certainly, in the first stage of reform thinking (anti-Stalinist revisionism) it was not useless to challenge, for instance, the 'law of planned and proportionate development' by means of the possibly less amorphous concept of 'commodity-money relations'. But after having left the field of this scholastic debate, a medical scalpel would have been better suited than a hatchet to properly dissect economic reality. To say 'market' instead of 'commodity-money relations' is only the first – linguistic – step in refining the instruments . . .

Reform economists had at one time pioneeringly declared the need to combine the planning and market institutions within the state sector. Also, they trusted in the logical possibility of making flawless, at least workable, combinations.[22] This did not, of course, exclude 'dialectical contradictions' between plan and market (remember the Marxist origins of the reformers). Nevertheless, these contradictions were not considered 'antagonistic': the relationship between plan and market was conceived as a subordination of the market to the plan rather than mutual adjustment (hence the term 'planned market' instead of 'marketized plan'). The concept of the economic mechanism was intended to express the 'leading role' of the plan. The analogy of the machine served as an example of the executive, mediating function of the market, which is basically governed by exogenous objectives. It was also assumed, optimistically, that in the course of their interaction, plan and market in the last analysis reinforce themselves, stimulating each other to reveal their advantages and suppress their drawbacks.

Thereby the reform economists distanced themselves from a war communism-type theory of extreme centralization and demonetization. But did they also display much community of ideas when, having accepted this combination thesis, they started to specify analytically the internal proportions and institutional patterns of the combination? In other words, was there a sufficiently large common domain of scholarly assertions on plan and market which could reasonably be labelled as reform economics, or was this domain, on the contrary, so extended in a speculative way that even a sort of 'sound Stalinism', also 'reforming' the model of war communism, might find a place in it? (Remember the hesitation of the early reformers in assessing Stalin's 1952 interpretation of commodity production under socialism.)

To speak about the consolidation of the scholarly position of the reformist school in Eastern Europe over the past decades may be

misleading if reform economics could not be distinguished unambiguously from Stalinist political economy. Unfortunately, there were for a long time *striking similarities* in abstract economic discourse (objective laws of the economy, priority of state ownership, theory of labour value, macroeconomic (holistic) approach, and so on), as evidenced, for example, by the protracted debate over the '(in)evitability of the operation of the law of value in a socialist economy'. The ex-disciples of reform economics still owe the history of economic thought a systematic critique of Stalinism, say, by dissecting the notorious textbook on the political economy of socialism published in 1954 in the Soviet Union. Eclecticism does not nullify the intellectual debt. Examining the structure of even the most irreverent economics manuals published in the last ten years in Hungary, Poland or Yugoslavia we see a peculiar mixture of Marxian theory of labour value and mode of production; the 'basic law of socialist economy' as formulated by Stalin and wrapped in welfare economics; a portion of state interventionism á la Keynes; some theory of optimal planning; Kornai's shortage model; and a compendium of idealized rules of economic organization and policy in the given socialist country.[23]

Radicalization versus 'learning by learning'

As far as the intellectual shortcomings of reform economics are concerned, there were, of course, several excuses to be taken into account: the unavoidable naïvety of the newcomers, their being at best only tolerated, the practical tasks consuming the energy of the reform theorists, the lengthy period needed for any economic theory to unfold even in 'peace-time', and so on. Occasionally, it was also noted, rather cynically, that it would hardly have been possible to perform worse than the rival, the Stalinist political economy, did. According to the firm belief behind these justifications, time was on the side of the reformers, who succeeded in refining their scientific apparatus when they were allowed to do so. How long one can go on forgiving a theory's peccadilloes on the grounds of youthful 'wild oats' is debatable. Similarly, the out-competing of Stalinism must be considered in retrospect a *domestic quarrel* (what is more, a parochial and scholastic one). In any event, thirty to forty years of evolution (if disregarding another three decades of the prehistory of Soviet reform-economic thought, say, from Bukharin to Voznesenskii) should have appeared to be long enough to start the Eastern European economists meditating upon why reform economics – persecuted or tolerated – was not able to get beyond the adolescent stage.

Could it have done so at all? Or would growing up also have meant the end of reform concepts? Scholarly refinement was a central category of historiography of reforms in the 1980s. With the final state of the theory veiled in mist, the future was replaced by the process of approaching it. '*Seeking ways and means*' was the most popular phrase used to express the experimentalist ambitions of the reform economists who refused to offer

Utopian recipes for market socialism. Growing sophistication in a 'trial and error'-type learning process slowed down only by two troughs between the three waves (in the 1950s, 1960s and 1980s) of the reform – who would have argued with this assessment?[24]

Evidently, the reform theorists have intellectually matured as they left behind the positions of perfecting the planning targets in the 1950s and reforming the economic mechanisms in the 1960s and 1970s, flirting in the 1980s with the idea of the 'reform of the reform' (Hungary), with that of a 'crucial reform' (Poland) or of an 'urban reform' that would complement the rural one (China). These radical moves, they assumed, would have finally changed what had not been permitted before, without totally antagonizing those who did not permit these changes.

Reform economists covered a great distance on a dangerously winding road to gather enough strength by the end of the 1980s to present the iconoclastic programme of marching ahead to a non-socialist mixed economy. Socialism, the reformer-*routinier* of Eastern Europe said at that time, was a tiresome detour, which under the pretext of destroying the feudal relics of East European societies, did its best to reinforce them. Therefore the economic and political reforms must display anti-feudal features: they should create (not merely reconstruct) (a) a genuine workable market economy through privatization and dismantling most of the state controls; (b) a democratic polity by transforming the authoritarian and/or oligarchic nature of the party-state. In a word, the reforms are to give rise to (and not merely to revitalize) a 'civil society' in a *Rechtsstaat*.[25]

What did the Eastern European economists learn in the course of this tiresome detour? The main lesson was, I would say, that they taught themselves how one must *not* make reforms. That is to say, learning to their own cost, they revised nearly all their former conceptions about the improving workability of the market when it is under severe institutional constraints, as well as about its quasi-automatic self-liberation.

Experiencing the fallacies of partial reform moves, the disciples of reform economics could not help asking where the built-in limits of marketization were and what would happen if they were transgressed. So they made ground-breaking efforts to describe how extremely distorted markets work in Eastern Europe, but, at the same time, less ground-breaking ones to recollect what their western colleagues had said about the functioning of much less distorted markets. No doubt about it, this was really a kind of learning-by-doing, as the reformers said, even if the course of evolution was slightly irregular. For the reform economists did make rapid advances in comprehending the economic reality of Soviet-type systems and systematizing the ends and means to change it, whereby they tried to do their best as reform-makers. However, they were rather slow in '*learning by (and for) learning*', that is to say, in adopting and producing fine techniques of economic analysis.

By coining the term 'speculative institutionalism', I intended to reflect upon the manifold backwardness of the Eastern European economic profession. Many historians of western economic thought maintain that institutionalist considerations may support the critique of the abstract-deductive models of neo-classical economics, rather than lay the foundations for a new, independent theory. In the post-socialist economics of Eastern Europe, however, we equally need the logical exactitude and disciplining force of abstract-analytical studies as well as the realism of institutionalist inquiry. Moreover, institutionalism does not necessarily entail down-to-earth empiricism: the objections to its speculative nature in the case of reform economics do not preclude the possibility of making reasonable generalizations and conducting meaningful abstract-analytical research on the grounds of institutionalist premises.

To forestall misunderstandings again, I have nothing against empirical surveys.[26] What I would suggest is that (genuine) empirical and (genuine) abstract studies be simultaneously developed. The crux of the matter is, as ever, the selection of the underlying concepts of the theory. As long as we had in Eastern Europe a series of both empirically and analytically 'soft' concepts in reform economics, that exhibited only the disadvantages of the rival western schools of economics (general equilibrium theory and its critics), that is to say, these concepts could be neither empirically verified nor logically harmonized, explanation and prediction remained weak points of reformist economic science.

Learning by learning? It seems to me that the reform theorists tended to adopt a surprisingly uncooperative (I would not go as far as to say provincialist or hostile) attitude towards the economic profession in the west. *Indifference* is, perhaps, a better word. They – primarily the mathematical economists among them – usually did not reject the application of the scientific apparatus of western economic theories (in Hungary, for example, there were practically no ideological restrictions against 'bourgeois' economics over the last twenty years).

Nevertheless, reform economists did not make special efforts to explain why they systematically left out of consideration the scholarly achievements of whole new schools in economics; why they did not take the risk of 'Sovietizing' some of the central notions introduced by these schools. Should we assume that mainstream and 'out-of-the-mainstream' economics were unable to help refine substantially the scientific performance of reform economics?

The cracks in the neo-classical synthesis, as well as the appearance of those alternative research programmes which strived to fill them in, even at the risk of sacrificing main wings of the scientific edifice, simply escaped the attention of the majority of Eastern European economists over the last fifteen-to-twenty years.[27]

'Underground' economics

To maintain or raise the scholarly level of reform economics in the course of reform-making was a complicated task. Not only because tactical solidarity frequently prevented the reform economists from challenging each other on scientific matters . . . The need for new reforms was always so obvious, the costs of the changes for the reform economists, as well as the intellectual standard of the political counter-arguments were so low and the expertise of the economic authorities who were negotiating over the reform proposals was so sketchy that the architects of reform could often rely in their writings on rule of thumb and common sense.

In reformist circles metaphors such as *subterranean river* described the cumulative evolution of reform ideas as a stream of economic thought which, though repeatedly pushed underground, breaks out anew with ever greater force.[28] Some branches of this river, however, tended to be absorbed in the earth or, alternately, to re-emerge. Important ideas were forgotten, became blunted or distorted, then perhaps were reinvented; whole trains of thought run parallel with the mainstream but digressed from it at a certain point or got entangled (see, for example, the history of the concept of 'socialist entrepreneurship' from the Soviet *nepman*, through the theory of Liska in the Hungary of the 1960s, to the 'responsibility system' in China or to the intra-enterprise associations in Yugoslavia and Hungary during the 1970s and 1980s). Basic attitudes of reformation appeared by turns (political and economic reform, reform from below and from above, reform of the economic regulators and/or the organizations, and so on); and there was a never-ending faith in planning which recurrently affected most of the reform concepts even if it was not always as open as with 'computopia' or 'planometrics'.[29]

Consequently, the river was sometimes more 'polluted' when it came to the surface again than it had been when going underground (see, for example, Tardos's proposal for the liberalization of the capital market in Hungary, formulated in the early 1970s, revived at the beginning of the 1980s but soon replaced by a self-management scheme). Moreover, the growing violence of the outbursts might lead the observer astray: the systematization and gradual extension of reform thinking did not necessarily imply a simultaneous rise in scholarly invention. What was undoubtedly growing (in a cyclical way) was the ideological and political fervour of reform economics. This kind of *successive radicalization*,[30] however, made the original scientific problems of reform theories more explicit rather than solved them. In the beginning, the secularization of Stalinist political economy, of course, paved the way for scholarly research. None the less, after a while, scientific inquiry could prove counter-productive for dedicated reformers because it reinforced the need for going beyond the reformist political premises.

TOWARDS 'SOZIALE MARKTWIRTSCHAFT'?

Evolution inhibited – at first hearing this term endeared itself to a matter-of-fact reform economist. He said: If we had not been forced underground from time to time, we would have elucidated and diffused our knowledge in a regular way; sorry, reform theories developed through stormy party meetings and not through pleasant chats in university cafés. At the second hearing, however, when the internal (logical) factors of inhibition were also touched upon, the attraction surely evaporated.

When the combination of plan and market was generally accepted by the Eastern European reformers in the 1960s as the core of the new theory, the message of the never-ending debate on socialist economic calculation was interpreted one-sidedly as a call for the partial rehabilitation of the market under socialism. However, the warnings on the part of the liberal critics of state planning about the dangers of *only partially* curbing state power in the economy were neglected.[31]

The logical contradictions inherent in the relationship between plan and market (in particular, when it comes to real-socialist ways of planning and to marketization without privatization) were simply denied, eased by a rhetorical twist or treated as *external* political constraints on the reform. Hardly any reformer would have opposed this statement: if the meshing gears of plan and market squeak, it is not because they do not fit together theoretically, but because – to put it bluntly – somebody poured sand between them. Consequently, the 'enemy' became externalized from the very outset. It was not considered a component of a controversial theoretical complex, but an agent impeding the development of an otherwise potentially coherent theory from outside.

From the 'bad market' to 'building up a market economy'

The reformers originally conceived of the plan as a *sterile* (politically neutral) institution: they held not the plan as such, but the Communist hard-liners, who were not considered to be involved with the plan-market combination, responsible for blocking marketization.[32] The assumption, however, that even the most reform-minded, market-oriented planner disturbs – *ex officio* – the spontaneous order of the market process, sounded heretical even in the second half of the 1980s when in reform economics the desired scope of planning was already relatively narrow. For an Eastern European reformer to say plan *or* market instead of plan *and* market was a neo-Stalinist deviation, rather than a liberal critique of reformist thought at that time.

The market was also regarded by the early reformers as a *neutral* institution, which is indifferent to property rights. It was a widespread assertion that the market can be recreated within the state sector; if it still does not work there adequately, not the lack of private ownership but rather the intrinsic failure of the market is to be blamed.[33]

In the reformers' view, the grand concepts of plan and market were able to embrace everything in the economic history of socialism: on the one hand, from state dirigism to indicative planning, and on the other, from the abolition of forced procurements in agriculture to the stock market. On the level of economic theory these concepts were portrayed, at best, *symmetrically*. It is well known that in the beginning, the supremacy of planning, that is, a remarkable asymmetry in favour of the 'good' plan, could not be disputed in reformist circles. However, even later, when the 'bad' market succeeded in emancipating itself in reform thinking, the basic philosophy remained intact: the principle of 'give the market a (revocable) chance to help where the plan fails' was never definitively replaced by that of 'give the plan just a slight (revocable) chance where market fails'.

Instead, during the 1980s, the reformers started to entertain the view of a kind of abstract symmetry between the 'good plan' and the 'good market'. In the dominant discourse of reform economics there was no room for the idea that plan and market cannot be balanced in a speculative equation, for example, because the plan in Soviet-type economies is more 'contagious' than the market: a drop of planning is able to spoil a barrel of market. Then, plan and market can be within a hair's breadth of turning into plan *without* market.

Using the analogy of modern capitalism (as portrayed by Galbraith) to support the combination thesis, reform economists from time to time entertained hopes of creating a mixed economy 'with an Eastern appeal'; in other words, with the *differentia specifica* of the plan having a larger share in the mixture (larger than that of the market?; larger than that of the plan in the west?). The question of how large it should in fact be was usually answered in allusive terms, which suggested in an implicit way that all kinds of the combination were viabble from the point of view of economic rationality. The authenticity of reform economics was based on this assumption rather than on the perhaps more realistic one that plan and market are at least as capable of imparing each other's positive effects as they are of improving them.[34]

The first shock came in the late 1960s and the early 1970s when the reform economists in Belgrade, Budapest and Moscow (not to mention those in Prague) realized how quickly the non-reformed segments of the economy assimilated the partly-marketized ones. The survival of the shadow economy also surprised the reformers, who had expected that the marketized state economy would make both the 'old mechanisms' and the illegal/informal private entrepreneurship superfluous.

Since the invention of the convergence theorem, decades have passed, and the fact that it was much easier to liquidate or distort the market in the west than to establish it in Eastern Europe, became a common experience of the reform economists. At the end of the 1980s there were signs in the

reformist literature of a switch from the pattern of modern capitalism to that of capitalism's early days, when it managed to get rid of the feudalistic restrictions on the market. According to the last slogan of the reformers, the market (not socialism) has to be built up. However, it has not been generally admitted until recently that even a *markedly smaller* proportion of the state than ever envisaged by the reform economists to cure the maladies of real socialism was capable of destabilizing the capitalist mixed economies (cf. the end of the Keynesian revolution).[35]

To sum up, the plan-and-market discourse could only serve as a framework for a *deformed* (distorted) version of liberal thought in Eastern European economics. The liberal aspirations of the radical reform economists were usually blocked by the inherent *statism* (élitism, interventionism) and *constructivism* of reformist thought. The typical reformer wanted to 'introduce' the market economy; he always had a positive reform programme, a master plan to experiment with, and found the idea of '*leben und leben lassen*' inadmissibly passive. Nevertheless, because he lacked a definite image of the future (where does the third way end?), these positive programmes tended to focus on the initial steps and the process of reformation rather than on its final stages. Consequently, if it makes sense at all to speak about liberalism in this context, reform economics embodied a sort of '*processual*' liberalism, rather than a liberal discipline derived from a definite – though abstract – ideal vision of the future or the past.

Even the more radical reform concepts did not rely on a profound philosophical (ethical) basis, on strong arguments about the intrinsic 'beauties' of the market and the virtues of private property, that is, on a radical liberal dream. Instead, the reformer saw the market in a *pragmatic-utilitarian* way as a device for 'repairing' the Soviet-type economy. In his view, the market does not embody justice in itself. It is, however, capable of working as a machine (cf. the term 'economic mechanism') which is geared, or even at times switched on and off, by the planners. This interpretation lent a *mechanical* (engineering) character to reformist liberalism.

No doubt about it, these deformations were considerably reduced in the course of the learning-by-doing process outlined above. None the less, liberalism in reform thinking remained *rootless* in a double sense. On one hand, the liberal tradition in economics in Eastern Europe was weak or broken, on the other, it was not reconstructed by importing or reinventing the basics of western liberalism. In the absence of a firm philosophical background, the trial-and-error procedures of reform-making could only lead to a pragmatic (profane) rediscovery of liberal thought. Liberal ideas resulted from practical choices, I would say, for want of a better solution, and were often against the moral conviction of the reform economists.

To be sure, the romantic anti-capitalist feelings inherited from Marxist teachings by the early reformers began to wane as the years passed.

Churchill's *bon mot* that democracy is the worst except for all other political systems, however, is still popular in Eastern Europe whenever economists discuss private property and the free market. Marketization *and* privatization tend to be considered musts, but they are regarded as necessary evils rather than 'the best of all possible worlds'. The latent animosity even the more liberal economists feel towards the 'inhuman' market is supported by traditional arguments that defend the principle of equal opportunity. *Egalitarian* considerations (whether they came directly from the Marxian Utopia of communism, western social-democratic thought, or from recent critiques of new classical liberalism) have not ceased to permeate reform and post-reform thinking until now.[36]

Waiting for the Grand Theory

From the very beginning, reform economics was inevitably confronted with the question (also well known for social-democratic ideologues): how can *Marxism and liberalism* be coupled? This question could be raised on every level of economic theory, beginning with the philosophical-methodological premises (how can the holistic and deterministic approach of Marxism be associated with the essential individualism and subjectivism sustaining liberal thought?), all the way to the actual proposals for mixing economic institutions in a Soviet-type society (how can the party-state be harmonized with medium- or large-scale private property and/or with autonomous forms of collective ownership?). That is to say, in addition to facing the problem of how to reconcile interpretations of liberty, equality, tolerance, virtue, rationality, common good, private initiative, and so on, between the two worlds of ideas, reform economics had to clarify analytically the underlying issue of whether the market could work in a modern economy without large-scale private ownership and political democracy at all.

We know from the experience of the 1960s that the Marxian paradigm permitted a partial reinterpretation of Communist values, based on anthropological principles. Even the notion of the 'entrepreneur' could somehow be squeezed into the official version of reformist ideology under the disguise of *homo faber*. But we also clearly remember how, in Hungary, Poland or Yugoslavia, committed neo-Marxists came into conflict with themselves when, during the 1970s, the vision of communism proved indefensible, either in terms of pure economics or in terms of the final goal of the transitional – market socialist – society. As the limits of market liberalization loosened up in many countries of Eastern Europe, the prospect of communism without commodity production, alienation, division of labour, and so on, grew ever gloomier.[37]

The transition became an end in itself instead of a means of approaching communism; what is more, its direction appeared to be reversed. When the old scenario of socialist transition written back in the Soviet 1920s, which was based on the theorem of the 'expanding islands' (whereby the islands

of the state economy are gradually absorbing the sea of the private/market economy) proved to fail, the dedicated Marxists had to leave the scene of the reforms. As regards politics, there were, of course, strong factors at work which prolonged the silent symbiosis of neo-Marxist and reformist thought (common critique of Stalinism, reforms delaying the collapse of socialism, need for mutual legitimization, and so on).

Reform economics can be described, somewhat irreverently, as a game of *searching for surrogate capitalists*.[38] The reformers found these agents of marketizing the Soviet-type economy in the figure of a manager of a state enterprise or holding company, in a member of the board of self-managing firm or co-operative, not to mention a great number of mixed types. In experimenting with the various structures of property rights to find an adequate measure of 'enterprise autonomy', the Marxists had to definitely pull out of the game after the radical wing of reform economists started to shift from advocating decentralization, indirect control, self-management, and so on, to proposals for real (non-simulated) privatization. From that point on, reformism unambiguously meant a kind of capitalist ideology to them.

And the liberal theorist, when would *he* have pulled out of the game if he had entered it at all? For an uncompromising liberal the game was suspicious from the very beginning when the socialist reform economists started operating with limited, *partitioned* and *simulated* concepts of liberty, property rights, rationality, and so on. How can liberalism be merely economic, how can socialism not be collectivist? – he would justifiably ask. A nightwatch-state which is awake during the day, too? The invisible hand which is conspicuously held fast by a visible one? What is a *socialist* market? What is socialist democracy? Why plan and market? Why not market and, perhaps, some plan?

'Libermanism is not liberalism' – declared the western observer resignedly back in the 1960s.[39] Since then, there were analysts in the west who – instead of calling the reformers closet capitalists – described the ambiguous 'liberal-collectivist' concepts of reform as intellectual attempts at being only a little pregnant. This also reflected the substantial lack of interest on the part of the majority of liberal economic theorists in any development of reform economics as science. Considering it a kind of 'political geography', they usually relegated reform economics to the field of Sovietology or, at best, to that of comparative economic systems.[40]

Less steadfast liberals did not concern themselves with philosophical reservations. They simply asked: surrogate capitalists amidst fundamentally collectivist property rights; simulated market with a self-deregulating state; informal pluralism within a formally monolithic political system, and so on – are these unstable, amorphous combinations appropriate for providing a solid base for a new school of economic science?

Coming back to the game analogy, this question can be reformulated as follows: is there a phase at all in searching for the surrogate capitalists (somewhere between the liberalization of small- and medium-scale private property) where the Marxist has not yet quit while the liberal has already entered the game? Can this phase last long enough to be defined as an object of a new scientific paradigm? One can, of course, reverse the question: let us imagine a phase where the Marxist has already left the scene but the liberal has not yet entered it. We encounter a large theoretical gap, a gap which the reform economists of Eastern Europe were not unfamiliar with (cf. the concept of the 'third way').

To be sure, in the real world there do exist meeting points for certain derivatives of socialist and liberal theories in the field of social-democratic type mixed economies. One might think, therefore, that the leftist variants of the doctrine of *Soziale Marktwirtschaft* could have been a reasonable target when reform economists were searching for a coherent concept of market socialism. But evidently, the two reformisms were not the same. Reform economics would have certainly gained in scholarly coherence by accepting – like social democracy in the west – large-scale private ownership and political democracy. At the same time, this radical move would have undermined its basic ideological principle, namely, reformism under real socialism. In addition, it is by no means proved beyond a doubt that by crossing the border of the plan-and-market discourse one would really reach the realm of a new scientific paradigm of economic theory. At this juncture, I turn to my colleagues in Austria, Germany or Sweden: let them ask if 'social-democratic economics' is still possible after the neo-liberal wave of the last two decades.

The logical experiment of building up a Grand Theory of socialist economic reform, a theory that did not emerge from the historical zigzags of reforming real socialism, proved unsuccessful. Wisdom of hindsight shows that it was a vain effort to make virtue out of necessity: that is, to search for a new paradigm of economic science within the limits of the plan-and-market discourse. Why not admit in retrospect (speaking in, if you please, Kuhnian language) that (a) the consensus within the scientific community of reform economists was rooted in a minimalist definition of the plan-and-market discourse rather than in the maximal (or at least reasonable) amount of scholarly principles of economics; (b) the values represented by the reformers were ambiguous (cf. liberalism versus collectivism); (c) the concepts applied were shaky and the methodological apparatus of economic research was often eclectic and obsolete (cf. 'speculative institutionalism'). Furthermore, it was unlikely that a coherent synthesis of reform thinking could ever be provided; the adoption of intellectual traditions was disturbed (cf. 'deformed liberalism') and the revolutionary-innovative power of the new theory was doubtful.[41]

Nevertheless, reform economics was capable of providing an authentic *in vivo* analysis of economic disequilibrium (shortage), centralization (monopolies) and hierarchical bargaining, business cycles, state redistribution, non-monetary transactions, shadow economy, and so on, namely, of those phenomena of excessive market distortion which could otherwise only be examined in 'normal' market economies in small scale, almost *in vitro*. Therefore, one could justifiably regard this hybrid discipline as an attempt that aimed at the construction of a general economic theory of market socialism but finally resulted in a kind of '*borderline-case economics*'. In any event, if reform economists had stopped flirting with the half-solutions of socialist marketization, there might have been an opportunity to follow a great many lines of thought, started three or four decades ago, to their logical ends. When a reformer wanted to comprehend market behaviour within the state economy, he was probably quite original and stimulating in describing how it did *not* work there, but he was rather frustrating to read as he persisted in trying to design a way for it to do so.

A THEORY OF TRANSFORMATION?

I am convinced that the above qualifications do not imply a dismissive attitude towards a number of intellectual achievements of reform economics. And commonplace though it may be, there are times in history which do not particularly favour the advance of economic science. '*Inter arma silent musae*' – the reform economist said. Sometimes – as we have seen – '*extra arma*', too – I add hastily.

Let us see if reform economics could be described in a less ambitious way: instead of forcing the definition on to the level of pure economics, why not consider this branch of economic thought a subdiscipline of the theory of economic and political liberalization (deregulation) in Soviet-type societies? Why talk about 'carelessness' in scientific matters, if it is well known that economic reform thinking was organically permeated by ideology and politics? In fact, it *was* possible to implement a series of socialist economic reforms under the banner of some controversial guiding principles without a clear picture of the points of departure and destination of the changes desired (with some exaggeration, adopting the old reformist slogan 'the movement is everything, the final goal is nothing'). What is more, maybe there was no other way to implement them . . .

The structure of the mix: towards a political theory?

If the reform concepts are treated as a mix of economic, ideological and political statements, and interpreted in their sociological context, the scholarly deficiencies may turn into advantages. For incoherence, eclecticism, amorphousness, and so on, though pejorative terms in the vocabulary of the history of science, may serve as proof of the flexibility of a *pragmatic discourse* if we look upon reform economics in such a way.

Understanding the plan-and-market discourse as a 'clever' language[42] may lead to the evaluation of economic reformism according to its success at solving the old paradox of reform-making: how to transcend the *status quo* without upsetting it? As a result, the scholarly qualities will be replaced by a degree of political efficiency in manoeuvring between extremes such as war Communist planning and the free market.

In describing the non-economic components of reform economics, it seems a more plausible choice to separate first the ideological constituents. So, economic reformism can easily be depicted as a reflection of the political Utopia of democratic socialism. According to this interpretation, reform economics was by definition *political* economy, even if it sometimes appeared as a sort of economics, a seemingly neutral science of economic technicalities.[43] If we prefer the functional analysis of ideologies to mere *Ideologiekritik*, we can also disentangle in retrospect the programmatic, legitimating, modernizing, critical, and so on, roles assumed by reformist thought, and reconstruct the conflicting values, interests and power relations represented by the various groups of reformers.

Both kinds of analysis demonstrate that the evolution of reform economics over the last thirty to forty years in Eastern Europe meant radicalization, that is to say, the reinforcement of the theory's ideological and political pillars, rather than refinement in terms of economic science. Once a self-restraining world outlook revealed through economic arguments, socialist reformism gradually grew into a self-proclaimed political theory, too.[44] So, knowing that the reform concepts were not able to promise Eastern Europe a grand economic theory in the past, can reform economics be interpreted as a component of a grand *political* theory of socialist reforms?[45]

The majority of what we have regarded as obstacles to scholarly evolution in economics, however, also applies to political science. To put it simply, oscillating between the doctrines of 'maximal' and 'minimal state', public and private ownership, and so on, also damages a political theory if it claims to be coherent.[46] But should a reformist theory of politics claim to? Can't its adherents declare: it is exactly this oscillation that we want to understand and make perfect. Can't the absolutist requirements of the theory of science be more easily neglected here than in economics?

In the middle of the road

I use this metaphor in a triple sense, indicating not only the ideological and political ambiguities of the reform economists, and the compromises made on the level of economic scholarship, but also the very nature of the theory's subject. For reform economics did its best in terms of authentic scientific performance when working as a kind of deregulation theory, in which the problem of 'from where to where' was blurred but the *process*

itself of dismantling controls remained discernible. I would not call it an evolution or transformation theory, although it was able to describe the way of transformation up to a certain point: it allowed you to step off the pavement and zigzag more or less safely among the cars in the middle of the road, but it could not show you what was on the other side of the street.

To extend the analogy, reform economics was really good at teaching its disciples how to break down the barriers separating the pavement from the road (or rather, how to sneak under them), but as a peculiar theory of transformation-without-end, it could represent at best the controversial concept of '*permanent reform* along the "third way"' that leaves the pavement of real socialism without arriving at any form of capitalism.[47]

In any event, although the reformers often remained uninformed about the state of things on this side of the street, too, the theory of reform, conceived as a *pilot programme* proved capable of clearing the way for a kind of more liberal post-reform (that is, transformation) economics that does not observe the limits of reform economics any more.[48]

Furthermore, few would challenge the view that, in principle, deregulation could be best studied using the example of Soviet-type state economies where the fabric of regulation was incomparably more comprehensive, intricate and durable than in most western war economies in contemporary history, and where government intervention became an organic (self-reproducing) part of the system. While economic deregulation in Soviet-type societies also means something similar to the transition from a war to a peace economy (therefore one could hardly expect from the reform economists radically new doctrines in this field), the specifically Chinese, Polish or Yugoslav techniques for dismantling the controls form an authentic part of the overall literature on economic liberalization.

Bargaining within paradoxes

Does portraying reform economics as a middle-of-the-road transformation theory really offer the historian new means of understanding reform concepts retrospectively?

In the past few decades, the political process of economic reform-making revealed a series of paradoxes responsible for the incoherence of reformist thought, which stemmed from its starting compromises. Reform – from below or from above? All at once or step by step? In economic life alone or also in the political system? In the economic institutions or in economic policies as well? In a slump or during an upswing? Well-known practical dilemmas[49] like these appeared on the theoretical level as paradoxes without proper logical solutions.

For often the same factors which allowed the launching of a reform process were also active in reversing it later on (cf. the survival of the core of the party-state that was ready to intervene on seeing the short-run destabilizing effects of market reforms). When the reform measures were portioned out from above cautiously, as a medicine for crisis prevention, they might not attain this aim, because the medicine was neutralized by the non-reformed parts of the system. At the same time, reform economics would have lost its genuinely reformist character if its representatives had opted for the radical solution of the paradoxes, and initiated a genuine reform movement from below, launching vigorous offensives simultaneously in broad segments of the economy and politics. This could have killed the reform project in its embryonic stage. Both were lost causes. Finally, as far as the third solution is concerned, that is, when the reformers tried to mix the moderate and radical solutions, it happened that either the recommended way was logically not viable (for example, a little bit of capital market did not function as a market), or it offered a complicated stratagem of 'guerilla warfare' to the reformers, which could not be incorporated into a coherent economic concept. (In the real world, of course, the reform economists could not avoid manoeuvring between the rocks of quasi-reforms and abortive reforms, seeking a way that was still acceptable to both below and above.)

Relying on these paradoxes, one can, probably, grasp the evolution of reform ideas better than by the simple model suggested by reform economists of 'we develop if we are permitted to'. Through the paradoxes, the starting political compromises between plan and market got built into the economic theory and the theorists themselves (for example, one could always recognize the 'eternal planner' in the reformer). So the analyst cannot make success without elaborate models of political interaction.

Abandoning the strictly hierarchical interpretation, according to which the fate of reform economics was almost totally dependent on the political authorities (an interpretation that might have been correct in the late 1950s in Hungary, after 1968 in Czechoslovakia, and so on), and, at the same time, doubting the rival thesis that intellectuals have taken 'class power,'[50] we can arrive at a *dynamic model of bargaining*. This model would include the factors of both co-operation and conflict between the representatives of reformist economic science and politics. A discussion of the bargaining process then reveals a host of varying strategies on the part of reform economists (offensive and defensive, radical and moderate, overplaying, delaying, evasive or bluffing, and so on). These may explain important motives for launching or keeping back certain reform ideas, and extending or contracting the scope and the 'clamourousness' of the reform proposals.

Also, the apparently *cyclical* elements of the evolution of reform economics can be more realistically studied in this way, since we do not have to attribute, for instance, the subsequent bursts of reform thinking, for want of a better explanation, exclusively to the decline of the economy, or to the internal development of reform economics.[51] Instead, we can trace the fine irregularities of change (storing, irradiation, synergism, simulation, mutation, substitution, and so on, of reform ideas) as well.

The bargaining approach also illuminates how reformist thought was 'straightened out' in China, Hungary, Poland and Yugoslavia after the dramatic ups and downs of its initial stage. It shows why reform economics often refrained from touching the final taboos even in times of its expansion, and why it did not necessarily have to go through a *catharsis* during the contraction phases. In order to understand this pattern of self-correction, we must study the sociological preconditions for the partial integration ('étatization') of reform economics in certain countries of Eastern Europe, as a result of which it became a semi-official ideology more or less protected by a reform-minded government administration. The gradual separation of reform economics from the university political economy department and the 'partnership' of the reformers with some members of high-level economic management that was mediating the reform proposals of the academics with the ultimate bargaining partner, the hardliners in the Communist Party leadership, were spectacular features not only of the long-lived Hungarian New Economic Mechanism.[52]

Reform economics was inconceivable without the political *métier* of economic theorists, that is, without the establishment of their role as experts, which gave them bargaining chips. It was often this kind of long-run professionalization and radicalization (that is, increasing utilization of the expert power) that many observers tended to mistake for scholarly refinement.

'Reform bargaining' was based on a varying degree of co-operation, the foundations of which had to be continually reinforced by updating the starting compromises to avoid its getting out of control.

And what if they cannot be reinforced any more? Are there still reserve models of reform economics before one exceeds the final limits of the plan-and-market discourse on the way to a social market economy? Will the disciples of a socialist market economy attempt (and survive) this illegal border crossing or, scared off by the risk, will they become instead agents of a stagnant or decaying reformist thought? Maybe reform economics will leave the scene of economic thought in both cases: either as a mutant subspecies of 'social market economy' or as a hybrid incapable of life – these are burning questions for the Eastern European economists of our time. When I put them I realize compassion made me forget most of my doubts.

This is how I finished my first paper written in the framework of our 'Plan and/or market' project in 1988. Since then entering the social-liberal discourse has become 'legal' for the former reform economists. Nevertheless, reformist thought has so far preserved some of its important features for posterity.

In the beginning, the majority of the project participants assumed that in the evolution of late socialist reform concepts, there were two directions left. We thought that reform economics might progress towards a theory of corporative state economy and even towards that of a political dictatorship with a *laissez-faire* economy. In essential points, both scenarios would remain within the limits of the compromises made by the socialist reformers. In the second half of the 1980s, some reform economists in Eastern Europe were inclined to accept these ideas when they lost their faith in the rapid disintegration of the Soviet-type party-state. Since then there have hardly been any predictions about the fate of real socialism that did not fail. These two possibilities of change in Eastern European economics, however would still be too early to exclude even if many of the states in the region have in the meantime been deprived of the bulk of their Soviet-type characteristics.

Sociologically, a great many radical reformers (from Balcerowicz in Poland, through Tardos in Hungary, all the way to Popov in the Soviet Union or Bajt in Yugoslavia) have proved capable of 'sliding' into a transformer position and becoming advisers to new democratic governments and parties. Theoretically, however, it has not been so easy to change. As a contrast to the bold expectations in the west, there is no neo-liberal (libertarian) breakthrough in economics under post-socialism. The strong legacy of what I called above 'deformed liberalism' of the reformers could not be entirely broken, first of all because the daily tasks of *engineering the transformation processes* in a deep economic crisis reinforce the statist-constructivist attitudes and social commitments of the ex-reform economists. The imaginary pendulum that was supposed to swing from the extreme of totalitarian collectivism to the other extreme of *laissez-faire* has already swung to the other direction but seems to stop not very far from the point of suspension. The reformist dream of halting the pendulum right in the middle proved to be a Utopia. The 'transformist' dream of moving it much closer to a liberal position may also become one . . .[53]

NOTES

*I wish to express my gratitude to Aladár Madarász and Márton Tardos, who offered valuable comments on the earlier drafts of this chapter, and to Cara Michelle Morris for reading the text.

1 This chapter has been written in the past tense to express – probably exaggerate – hopes in the end of the era of socialist reformism in Eastern Europe. In the 'unfinished revolutions' of the Soviet Union and China (not to mention some countries on the Balkans) there remained great reserves of reformist thought even after 1989.

In what follows, the last three to four decades in the life of the 'reform countries' of Eastern Europe will feature as the principal subject of analysis. The history of economic reform concepts under socialism, however, extends beyond these limits: it begins in 1921 with the introduction of the New Economic Policy

in Moscow, and the frontiers of Eastern Europe stretch as far as Beijing. (The expressions 'reform concept', 'reform theory' and 'reform programme' will be used interchangeably in the chapter. In this context, theory does not necessarily mean scientific theory.)

2 This chapter is not the end-product of an exhaustive historical survey of reform concepts in Soviet-type economies. As it was said in the Prologue, the systematic comparison of socialist reform programmes by our research group was interrupted by the conversion of these programmes into scenarios for the post-socialist transition. In writing this paper I borrowed a great deal, despite all our disagreements (and my Hungarian biases), from the participants of our 'plan and/or market' project. I owe special thanks to them (see notes 3, 4, 5 in the Prologue).

3 Cf. Kornai's typology of Hungarian reformist thought (Kornai 1986). Admitting the elegance of his classification scheme, I must confess that I could hardly find a single economist in my country who would not have had reservations about its underlying principles. As regards Kornai's typology, I have doubts about the separation of Langeism from naïve reformism; the mixing of the characteristics of reform, reform evasion and anti-reform in the term 'Galbraithian socialism'; the inclusion of Liska's entrepreneurialism in the type of the radical reformers; and about the understatements used both when appreciating and criticizing the latter. For my critique of the existing comparative schemes, see Kovács (1990a) (see also Klaus and Jezek 1991).

4 Cf. Lengyel (1989), Szamuely (1986) and Kovács (1984, 1986). See also the answers of Hungarian economists to the questions of *Acta Oeconomica* about the concept of 'socialist market economy' (On Socialist . . . 1989).

5 For the logical problems of justifying reform moves, see Brus (1986) and Rychard (1988), as well as Bajt's, Osiatynski's and Zhou's papers in this book. See also the recent debate among Hungarian economists on reform and recentralization (Antal, Berend and Szamuely 1989).

6 Cf. Kornai (1980a), Lengyel (1989) and 'On Socialist. . .' (1989). In Hungary and Poland (and lately in the Soviet Union) the economists were generously assisted by sociologists in empirical research. See Aven's and Osiatynski's papers in this book. See also Rychard (1988) and Kovács (1991).

7 Here are a few quotations from the Hungarian literature of reform economics for illustration:

> The history of our subject (the critique of the economic mechanism) proceeds (along the lines of increasing generalization and objectivization . . . We see a clear picture of scholarly activities becoming more and more comprehensive and raising ever broader questions.
>
> (Bródy 1983)

> Our science – has it marked time or advanced? . . . Our science has covered a very great distance . . . The iteration between science and politics has had a fruitful effect on both. It is the overview of the history of the last four decades that may rightly convince us that the course of further development will follow this trend.
>
> (Hoch 1985)

> By the 1980s, there had taken shape a descriptive concept of the economic mechanism built on solid foundations both from the point of view of economics and of sociology. It is associated with normative economics, which vigorously demands the reform of the economic mechanism. This is the launch-pad from which the new generations take off in the debate on economic mechanism..
>
> (Lengyel 1984)

For recent sceptical interpretations, see 'On Socialist . . .' (1989).

8 Providing patterns was for a long time a strong priority of the ideology of the 'self-managed market economy' in Yugoslavia (cf. Horvat 1982). Until recently, Šik has also insisted on the idea of 'humane economic democracy' (Šik 1972, 1979, 1985, 1987). For the Polish versions of the concept of self-management, see Kowalik's and Osiatynski's chapters in this book. See also Kowalik (1986). Hungarian reformers usually showed moderation in recommending the 'export of humanization' to the west (see Kornai 1980b).

9 See Liska (1985, 1989), Šik (1972, 1979), Kowalik (1989) and also Brus's and Nove's chapters in this book.

10 Cf. Bauer (1979, 1984), Horvat (1982), Šik (1972). See also Brus's, Kowalik's and Sutela's chapters in this book. For a critical view of the relationship between Marxism and reformism, see Rakowski (1978) and Kolakowski (1978). See also the debate between Ernst Mandel and Alec Nove in *New Left Review* (Mandel 1986, 1988), Nove (1987) and 'On Socialist . . .' (1989).

11 Nina Andreeva's recent philippics are known too well. See also Szegö's and Latouche's rough attacks on the Hungarian reformers, in which conspiracy and social-Darwinism belong to the lighter accusations (Szegö 1983). Latouche (1985). For similar criticisms in China and the Soviet Union, see Zhou's and Sutela's chapters in this book.

My sceptical attitude towards socialist reformism has never been based on the premise, fairly common in the neo-Stalinist critique of reform thinking in Eastern Europe, that reform economics is primarily a political movement of marginal intellectuals, disguised by pseudo-scientific argumentation, which uses understatements like 'decentralized planning' merely to sugarcoat the principles of *laissez faire* (cf. Kovács 1984, 1986, 1990a, b, 1991).

12 Cf. Bauer (1987), Bornstein (1979), Kowalik (1986), Nuti (1988) and Kovács (1990a). See also 'On Socialist . . .' (1989), and Bajt's, Davies's and Zhou's chapters in this book.

13 See, for instance, the following case studies: Batt (1988), Comisso (1979), Duff Milenkovitch (1971), Katsenelinboigen (1980), Kornai (1986), Kowalik (1986), Sutela (1984), Szamuely (1982, 1984), Wu (1988) and Zauberman (1976). In the history of socialist reformism there were quite a few legendary examples for semi-official reform packages (cf. the materials of the Varga Commission in Hungary in 1957 and of the Economic Council in Poland between 1956 and 1962, or the various reform blueprints made in the TSEMI in Moscow during the 1960s). For the lack of basic works in Hungarian economic science, see Kovács (1991).

14 For the place of Kornai's shortage theory in this interpretation, see Kovács (1991). Horvat's voluminous *Political Economy of Socialism*, published in 1982, rests on rather weak pillars in terms of empirical evidence. At any rate, the low-tide of practical reformism during the 1970s resulted in a general upswing of empirical research into the causes of the failure of reforms. The analytical processing of the new empirical facts, however, did not lead to a rejection of the reformist world-outlook as such. Of course, an important exception is China, where the first half of the 1980s witnessed a great upsurge of normative reformist thought (see Wu 1988 and Zhou's paper in this book).

15 Cf. Brus (1975, 1981, 1983, 1985), Brus and Laski (1989), Laski (1985, 1987), Nove (1983), Selucky (1979), Šik (1972, 1979, 1985, 1987). See also the works of Kosta and Levcik. Interestingly enough, the émigrés – while being more steadfast in their political critique of the Soviet-type systems – were not necessarily more radical than their colleagues at home in matters of privatization (cf. Brus's paper in this book).

16 For Kornai's changing attitude towards liberalism, see Kovács (1991).

17 It is the current dismantling of the Soviet-type system that provides the last opportunity to test the validity of the descriptive and analytical concepts which were used by the reformers in interpreting the economic behaviour of the *ancien régime* (cf. the notion of 'borderline-case economics' below).

18 Cf. Bauer (1984), Liska (1988, 1989), Siklaky (1985), Tardos (1972, 1982, 1986) and Tardos's paper in this book. For similar examples in other countries, see Kowalik's, Osiatynski's, Sutela's and Zhou's papers in this book.

19 Cf. Kornai's sceptical attitude towards normative economics and his critique of the main currents of Hungarian reformism (Kornai 1980a, b, 1986). In this volume Podkaminer calls for a widening of the knowledge of Eastern European economists in macroeconomics. For an important initiative to combine standard 'western' microeconomics with 'eastern' empiricism, see Galasi and Kertesi (1990).

20 See, for example, Bauer (1981) and Soós (1986). See also Brus (1986).

21 See Šik's idea of 'socialist commodity production' (1967), Brus's notion of a 'decentralized system' (1972), or Horvat's 'planning *cum* market' concept (1982). See also Popov's and Rakitskii's recent thoughts about the 'administrative' or 'barracks-like' system in the Soviet Union (Popov 1987; Rakitskii and Rakitskaia 1989). It is interesting to note that sometimes even empirical-minded economists got involved in rather speculative argumentation (cf. Bauer's 'neither-plan-nor-market' concept (1984) or Kornai's compromises between efficiency and socialist morals (1980b)). See also some recent attempts made by reform economists at defining the term of 'socialist market economy' ('On Socialist . . .' 1989).

22 Cf. Brus (1972), Horvat (1969), Lisichkin (1966), Péter (1956) and Šik (1967).

23 See, for example, the 1985 textbook of the Karl Marx University of Economics, Budapest (Hámori 1985). The first manual of microeconomics was published in Budapest only in 1988, twelve years after the first Hungarian translation of Samuelson's textbook. As regards the official economics manuals, the situation was not much more favourable in Belgrade and Warsaw either (cf. Vacic 1988). True, political economy in the university departments (which were in every socialist country traditionally more conservative than the research institutes of the government and the Academy of Sciences) could not resist 'secularization' as years passed. See also Sutela's paper in this book about the textbooks of socialist political economy in the Soviet Union.

24 Cf. Berend (1983), Brus (1985, 1986), Kowalik (1986), Nove (1983) and Szamuely (1982, 1984, 1986). See also Zhou's paper in this book.

25 See Antal *et al.* (1987), Balcerowicz (1987), Brus and Laski (1989), Gligorov (1991), Klaus and Jezek (1991), Kornai (1988), Kowalik (1986), Rumiantsev (1990, 1991), Rychard (1988), Szelényi (1989) and Winiecki (1987). See also Brus's, Comisso's, Davies's and Tardos's papers in this book.

26 See Kovács (1983, 1991).

27 For this 'indifference', see Bajt's, Grosfeld's, Leipold's and Dietz's papers in this book. See also Kovács (1991) on the historical gap between reformist thought in Hungary and economic science in the west. It is the misfortune of the Chinese, Hungarian and Polish, economists that the Yugoslav reform model offered better opportunities for examination by means of the standard analytical tools of mainstream economics. Now there are dozens of models of the 'Illyrian' firm in the literature, while the analytical patterns, different from what Lange proposed, of the 'Pannonian' or 'Polonian' ones are still lacking (cf. the works of Domar, Dreze, Estrin, Meade, Pejovich, Svejnar, Vanek and Ward). Duff Milenkovitch (1984) made a stimulating attempt to resist the magnetic attraction of the labour-managed economy.

28 Cf. Brus (1986), Lewin (1974), Madarász (1985) and Szamuely (1986).

29 Cf. Klaus and Ježek (1991) about the constructivist inclinations of the 'socialist

liberals' in Czechoslovakia, and Sutela (1984) about the lasting influence of the group of 'optimal planners' in the Soviet Union. See also Nuti (1988), Wagener (1985) and Davies's, Nove's and Zhou's papers in this book.

30 Cf. Kowalik (1986), Rychard (1988) and Kovács (1990a).

31 Cf. Bergson (1967), Brus (1972, 1985), Kornai (1986), Lavoie (1985), 'On Socialist . . .' (1989), Schüller (1988), and Balcerowicz's paper in this book.

32 Cf. Brus (1972), Horvat (1969), Lisichkin (1966), Šik (1967). This 'anti-apparatchik' approach has – understandably – prevailed in Soviet economic thought from Bukharin to Shatalin. See also Brus's paper in this book.

33 Ibid. For market failures, see Horvat (1982) and Šik (1985). See also Tardos (1972) on the competitive and non-competitive sectors in the state economy, and Wagener (1990a) about the impossibility of planning the market process.

34 Kornai's proposition about the 'whirlpool of bureaucratic restriction of the market' is a remarkable exception in the literature (Kornai 1984). See also Dietz's paper in this book.

35 See the popularity of concepts such as 'state-socialist redistribution', 'paternalism', 'administrative economy', and so on in the work of radical reform economists and sociologists (Brus and Laski 1989; Kornai 1988; Kowalik 1986; Lengyel 1989; Popov 1987; Szelényi 1989). See also Bajt's paper in this book.

36 For more about 'deformed liberalism', see Kovács (1990c, 1991).

37 Cf. Gligorov (1991), Klaus and Ježek (1991), Kolakowski (1978), Rakowski (1978).

38 See, for example, Brus and Laski (1989), Liska (1988), Nuti (1988), Tardos (1972).

39 Cf. Linder (1967)

40 See, for example, Buchanan (1979), Friedman (1984). Among the leading Eastern European economists Kornai was the least ready to accept this kind of discrimination. In criticizing general equilibrium theory, he did not cease to stress the similarity between the crucial problems of 'eastern' and 'western' economics. He even called repeatedly for the elaboration of a 'synthetical systems theory' or a 'political economy of co-ordination' (Kornai 1971, 1984). See also Knirsch (1987) on the (im)possibility of constructing a general – East-West – theory.

41 Cf. Madarász (1985), and Grosfeld's paper in this book. Needless to say, any less relativist requirement of scientific research (for example, those set by Popper or Lakatos) would call the scholarly credentials of reform economics even more into question. See also Brus (1981), Kosta (1987), Knirsch (1988) and 'On Socialist . . .' (1989).

42 The reader might wonder: aren't there relatively strict rules, based on the conventions in the reformist community, that govern the language of reform economics? If he were not convinced by the above demonstration of the amorphous nature of the plan-and-market concepts, I would recommend that he reflect on what 'planmarket' stands for in Liska's entrepreneurial model, or 'planning *cum* market' in Horvat's self-management scheme. It is also worth while studying why at a certain point 'decentralization', 'indirect control', 'marketization', and so on, became synonyms in the reformist discourse.

43 See Kolakowski (1978), Konrád and Szelényi (1979) and Rakowski (1978). According to Rakowski (that is, György Bence and János Kis) '. . . though the idea of "market socialism" remained Utopian, as an ideology it was nevertheless capable at certain moments of becoming a serious practical force and of having a real effect on social behaviour and attitudes'. Konrád and Szelényi recommend a revision of the term 'revisionism': 'We have to release the economic reformers of the 1960s in Eastern Europe from the accusation of revisionism, for we consider them the natural heirs of the rationalizing tendencies of Stalinist economic policy'.

44 This was exemplified by the fact that in the 1980s the doors of reform economics opened up not only before the historians and legal theorists, but also the sociologists and political scientists (cf. Aven's, Comisso's and Osiatynski's papers in this book). See also Comisso (1991), Gligorov (1991), Rychard (1988), Szelényi (1989) and Kovács (1990a, 1991).

45 Furthermore, can reform economics be excluded from among the subdisciplines of an overall (non-systemic) social theory of reform-making? I mean, a social theory that would explore the ways of transition between certain states of a given economic and political system. Cf. H.-J. Wagener (1990b) and Dietz's paper in this book.

46 See Kornai (1988) on the 'medium state'. The recurrent hesitation of the reform economists to choose between self-management and the market does not help clear up the theory either (cf. Balcerowicz 1987; Bauer 1984; Kowalik 1986).

47 This concept covered the maximum amount of reformism that the official ideology was capable of consuming in Hungary, Poland or the Soviet Union in the second part of the 1980s (cf. 'On Socialist . . .' 1989).

48 This 'clearing' function is, however, controversial. Although the establishment of economic reformism in countries like Hungary, Poland and Yugoslavia resulted in shattering the ideals of communism, the new mythology of market (self-managing) socialism blocked the road of rediscovering liberalism for a long time. Cf. Gligorov (1991), Kovács (1991).

49 For the dilemmas of reform thinking, see Kornai (1980) and Kovács (1984).

50 Cf. Konrád and Szelényi (1979).

51 See Brus (1986) and Szamuely (1982, 1984, 1986).

52 This 'partnership' may be illustrated by a long list of such names as Csikós-Nagy, Friss and Nyers in Hungary, Baka, Pajestka and Sadowski in Poland or Abalkin, Aganbegjan and Bogomolov in the Soviet Union. These 'moderates' were usually accompanied by 'radical' reform economists (like Tardos in the case of Nyers). See Katsenelinboigen (1980), Kurczewski (1990) and Kovács (1984, 1986).

53 Cf. Kovács (1990c, 1991)

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