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Narcissism of Small Differences

Looking back on “reform economics” in Hungary

As a latecomer to the economics of the 1968 reform in Hungary, I got acquainted with the so-called New Economic Mechanism (NEM) in the form of miserable propaganda articles published in the party newspaper *Népszabadság* and half-baked textbooks taught at the Karl Marx University of Economics in Budapest between 1968 and 1973. Under the combined influence of the student revolt in the West, the Prague Spring and the Budapest School of Georg von Lukács, quite a few young economists in my country developed a dual suspicion against the official reformist discourse of the time: suspicion that in my case turned into a comprehensive critique of “reform economics”, a brand name for market socialism in Hungary. Since the very inception of the NEM, which unfortunately coincided with the occupation of Czechoslovakia and a political freeze in Poland, I a.) could not believe in its evolution into a radical political reform, b.) missed its theoretical authenticity and sophistication.¹

As a matter of fact, the first suspicion did not provoke most of the Hungarian reformers too much: they had plenty of arguments to justify collaboration with the *nomenklatura*. These arguments reflected a great variety of attitudes that ranged from quasi-innocent beliefs in the improvability of the communist system, through subscribing to *Realpolitik* as an underlying principle of reform-making, all the way to flirting with a peculiar conspiracy theory. According to the latter, the ruling elite has signed its own death sentence by launching the NEM that would result in a gradual but unavoidable decomposition of the system. Obviously, this attitude offered the reformers the most pleasant (albeit somewhat diabolic) role: instead of serving

¹ Initially, my reservations were based on neo-Marxist illusions. However, after having read the manuscript of “The Anti-Capital”, a samizdat book by György Benec, János Kis and György Márkus in 1971/72, I developed, for my own use, a quasi-Austrian critique of the market concept of NEM. (See György Benec, János Kis and György Márkus, *Hogyan lehetnéges kritikai gazdaságról?* [How is Critical Political Economy Possible?], Budapest 1992.)

the lords, the economic advisors could take pleasure in cheating/bribing them into their own decay.

The second suspicion, however, touched upon neuralegic points of the professional identity of the reform economists, the originality and eminence of their scholarly achievements. The problem of genuine scientific discoveries was intertwined with that of Westernization. According to a then prevailing assumption, the socialist reformers would renew and enrich universal economic thought by advancing, under the aegis of an original social philosophy of the Third Way, the research programs of economic sciences in the West, and testing them with the help of a large array of empirical knowledge generated in the East.² When promising new insights, my colleagues thought to overshadow the old joke, according to which reform communists provide solutions to problems that would not have arisen if there had been no communism at all.

Of course, my reservations did not prevent me from sympathizing even with the moderate reformers when they were discriminated during the recurring periods of what we called the “ebb tide of reform” or plainly “recentralization”.³ Nevertheless, I spent more than one and a half decades of my academic life during the 1970s and 1980s by deconstructing the reformist paradigm, and criticizing, not infrequently in an ironic tone, the average reform economist in Hungary for his/her opportunism in both political and

scholarly terms. My critique became harsher as I witnessed the ossification of the collaborative roles played by the reformers, and got acquainted with new institutional economics, and realized how many opportunities for synergy between the East and the West remained unexploited owing to the “we are unique” – style parochialism inherent in Hungarian reform thinking.⁴

Today, I feel sorry for many of my sarcastic sentences. Be as it may, my personal story is irrelevant, except for one aspect. In contrast to most historians of the Hungarian reform, my gaze at market socialism was essentially external. With a good amount of false self-confidence, I elevated myself into the position of the impartial spectator to demonstrate why the reformers were not likely to be able to transcend their self-imposed limits in economic research and political advocacy, and become “normal” Western style economists.⁵ Seen from that particular ivory tower, the difference between the *oeuvre* of my Hungarian, Russian, Polish or Yugoslav colleague dwarfed, the national types of reform thinking (and making) overlapped each other, and the frictions between, for instance, the naïve, moderate and radical

2 The universalist mission of reform economics included as a maximum program the elaboration of an overarching normative theory of convergence between capitalism and communism; a theory to be based on a new general discipline of economic systems. Back in the 1960s, the latter task animated even János Kornai's thoughts when writing his *Anti-Equilibrium*. (See János Kornai, *Anti-Equilibrium*, Amsterdam 1971.) The minimum program of the reformers was not much less ambitious: it promised a kind of “borderline-case economics” that offered a genuine *in vivo* analysis of market distortions in the planned economy (shortages, campaigns, investment cycles, overcentralization, informal economy, etc.), which allegedly could only be examined *in vitro*, as borderline cases in most of the advanced Western economies. (See my *Business as (Un)usual*. Notes on the Westernization of Economic Sciences in Eastern Europe. in: *Three Social Science Disciplines in Central and Eastern Europe. Handbook on Economics, Political Science and Sociology* (1989–2001), ed. by Max Kaase and Vera Sparschuh, Budapest/Bonn/Berlin 2002, pp. 26–33.)

3 The most influential study, published in Hungary during the 1970s, on diluting the NEM was written by László Antal (See László Antal, *Development with Some Digression. The Hungarian Economic Mechanism in the Seventies*, in: *Acta Oeconomica*, 1979/3–4, pp. 257–273. On the bargaining cycles of the reform, see my *A reformalku sürgetései* [In the Thick of Reform Bargaining], in: Valószínű 1984/3, pp. 30–55; *Reform Bargaining in Hungary*, in: *Comparative Economic Studies*, 1986/3, pp. 25–46.

4 This line of thought was not cut in 1989. For some years after the revolutions in Eastern Europe, one could not help seeing the development of a large group of former reformers into “transformers” who continued to prefer local politics to universal science as well as Grand Designs and social engineering to evolutionary practices. See my *Engineers of the Transition. Interventionist Temptations in Eastern European Economic Thought*, in: *Acta Oeconomica* 1992/1–2, pp. 37–53; *Planning the Transformation? Notes about the Legacy of the Reform Economists*, in: *Transition to Capitalism? The communist legacy in Eastern Europe*, ed. by János Mátyás Kovács, New Brunswick and London 1994, pp. 21–47.

5 My reservations rested, however, on “compassionate doubts” that differed both from the indifference displayed by most of the economic theorists in the West toward their colleagues in Eastern Europe, and the arrogance with which, for instance, Václav Klaus liked to portray the reformers. He based his rejection on idealized standards of new classical economics, and denied the reform economists the possibility of making any original discoveries and drawing even quasi-liberal conclusions unless they join the mainstream. See my *Compassionate Doubts about Reform Economics* (Science, Ideology, Politics), in: *Reform and Transformation. Eastern European Economics on the Threshold of Change*, ed. by J. M. Kovács and Márton Tardos, London 1992, pp. 299–333; Václav Klaus and Tomáš Ježek, *Social Criticism, False Liberalism and Recent Changes in Czechoslovakia*, in: *East European Politics and Societies*, Winter 1991, pp. 26–40; Václav Klaus and Dusan Triska, *Kornai János és a posztosztalista átalakítás* [János Kornai and the Post-Socialist Transformation], in: *Budapesti Könyvszemle*, Winter 1994, pp. 480–483.

reformers, to use János Kornai's classification scheme, or between the Illyrian and Pannonian reform models, to cite Peter Wiles, grew insignificant.⁶

Small wonder that this approach sounded rather offensive to the ears of many Hungarian reformers (the jobs of advocating reforms, making reforms and writing the history of reforms were not separated at the time) who were busy with constructing typologies celebrating the "Pannonian" model of reform economics. I think I need not regret today what I wrote about the organic incapability of the socialist reformer *per se* to "Westernize" his/her research programs in the framework of an underlying political and ideological compromise with the party-state. Yet, profiting from the wisdom of hindsight, I feel now ready to revise the neglect I displayed toward the practical (above all, institutional/cultural) consequences of these programs even if these consequences were often unintended. While mocking, in private conversations, at the "narcissism of small differences" in the reformist thought throughout Eastern Europe, I disregarded many of the larger differences in the institutional/cultural configuration of the reforms. Probably, my only excuse was the aversion I felt toward the welfare chauvinism of the Kádár era

6

See János Kornai, *The Hungarian Reform Process: Visions, Hopes and Reality*, in: *Journal of Economic Literature*, 1986/4, pp. 1687–1737; Peter Wiles, *Economic Institutions Compared*, Oxford 1977. While still appreciating the stimulating effects of metaphors such as these, I remember my own incertitude felt in trying to find my way in the labyrinth of classification attempts made by a new (and quickly aborted) discipline, Comparative Socialist Systems, a younger brother of Comparative Economic Systems. (Cf. *Comparative Socialist Systems: Essays on Politics and Economics*, ed. by Carmelo Mesa-Lago and Carl Beck, Pittsburgh 1975; J. M. Kovács, *Reform Economics: The Classification Gap*, in: *Daedalus*, Winter 1990, pp. 215–249). See also the works by Josef Brada, Morris Bornstein, Paul Gregory and Robert Stuart, Helmut Leopold, Michael Montias, Egon Neubergger and William Duffy, Radosław Selucki, Benjamin Ward, Josef Wilczynski, Andrew Zimbalist and Howard Sherman, etc. written in the 1970s and 1980s. Although the discipline itself collapsed the production of the taxonomies of "really-existing" socialist systems and their reforms has not stopped since then. Of course, the conspicuous continuity of the Chinese reform fuels the desire for comparison. Simultaneously, the moderate versions of reform fade away and the radical ones become the main subjects of comparison. (See e.g., Witoldzimierz Brus and Kazimierz Łaski, *From Marx to the Market*, Oxford 1989). Like Brus and Łaski, János Kornai also used a dual scheme (the classical system and its reform) in his book on the political economy of communism but refrained from constructing any further types based on national practices, theoretical alternatives or the extent of reformist radicalism. See János Kornai, *The Socialist System. The Political Economy of Communism*, Princeton, 1992.

(cf. "goulash communism", "the happiest barrack in the camp"), a rather annoying attitude shared by most of the Hungarian reformers, which resulted in a clear hierarchy of reform types. I leave the reader to guess which countries featured on the top of that hierarchy ...

1. *Convincing the Economic Historian*

As usual, the light came from the East to illuminate the one-sidedness of my thinking. Still, it arrived extremely slowly. The spectacular homogenization of the "economic mechanisms" of the ex-communist countries (reformist and conservative ones alike) in the course of the 1990s seemed to corroborate the thesis of narcissism. Why should we bother ourselves with the difference between say, the East-German and the Yugoslav economic models under communism, I asked myself, if what we witness is, to use the current jargon just a bunch of "emerging markets" or "middle-income transition countries rushing in the European Union.

Why indeed if, in retrospect, we see that those differences had a rather weak predictive power? In some cases, due to unforeseen developments in geopolitics, nation-building, etc., just the opposite happened to what one has reasonably expected to happen. To remain with the example, the almost unreformed GDR became a lucky winner (probably the most lucky one) while most republics of former Yugoslavia, a proud inventor of self-managing market socialism, are among the absolute losers in the race called "transition to capitalism". As to other country types between these two extremes, even if their differences had seemed to the reformers and many of their Western observers huge twenty years ago, did the revolutions in 1989 not do an amazing work to fill the gaps between the institutional specifics of the ex-communist economies, not to speak of the economic policies the new democratic regimes pursue?

Looking around in the Western borderlands of the former Eastern Bloc at the turn of the millennium, we see more than a dozen national economies that rest on some kind of private ownership, and whose markets have been radically deregulated and globalized during the past fifteen years. Most of them are undergoing a process of deep-reaching legal-organizational adaptation by aligning themselves with the *acquis communautaire* of the European Union. In terms of economic policy, the new regimes tend to take similar measures ranging from fiscal stabilization, through dismantling the heavy industries to opening up to the West. Why then revisit the innumerable socialist reform experiments with the aim of discovering a new (a single best) classification scheme, including a distinct Hungarian type? – I continue asking.

Well, ambitious economic historians might venture to lead such expeditions. Unfortunately, I do not see concerted efforts to unfold in this field.⁷ Even more unfortunately, intellectual historians like myself are not particularly predestined for persuading the economic historians of the urgency of such efforts. If I recapitulated just a few of the concepts I used in the 1980s and early 1990s to capture reform economics, I am afraid, I would spoil the appetite even of the most dedicated economic historians for launching new research projects on comparative socialist reforms. "Borderline-case economics", "middle-of-the-road liberalism", "speculative institutionalism", "economics of what is *not* to be done", "the economic theory of the communist *perpetuum mobile*", etc. – these metaphors represent only a limited selection of attempts I made to understand the intermediary position of market socialism between the official political economy of socialism and the theory of *Soziale Marktwirtschaft* (social market economy).⁸

Today, one and a half decade later, knowing more about the end of the story of socialist reformism (with the exception of its Chinese, Cuban, etc. chapters, of course), one can add a new allegory to these metaphors. Accordingly, in revisiting the period of socialist reforms, one would encounter a bunch of rivaling economic alchemists in the royal court who all want to construe, in their own ways, *the* golden mechanism of the economy. On a nice sunny day, they (i.e., experts like Branko Horvat, Václav Komárek, Zdzisław Sadowski, Sergei Shatalin, Tamás Nagy, etc.) realize that the good old king disappeared and suddenly the interest in their experiments plummets. For a while, some of them try to save one half of their pseudo-gold product, for example, strong state ownership or self-management, even after the other half, the party-state collapsed, by offering a revised reform project to those

new political parties which flirt with collectivism (state interventionism) on both the left and the right.⁹ I would not say that they prove to be totally unsuccessful, especially in countries, in which the party-state preserved part of its integrity. Yet, post-communist transformation is a new and rapidly changing game, and most attempts at prolonging the past are pathetic.

If timeliness is no trump, how should one convince a prudent economic historian of the worth of an expedition back in reform communism; a historian who would have to face there dubious products of alchemy rather than real gold bars? I would launch my "agitation and propaganda" campaign very carefully, and begin with challenging the thesis of homogenization of the emerging capitalist systems in Eastern Europe. In fact, a close look at the region reveals quite a few dissimilar developments. To quote examples randomly, in the framework of overall liberalization, the technique of privatization, the share of transnational companies, the ways of dismantling the "communist welfare state" or the pace of stabilization varied across the country lines to a considerable extent. Similarly, from time to time, growth rates, inflation and unemployment figures differed enormously. Today, a great many analysts do their best to stop the quickly moving picture of the post-communist transformation, and to construe typologies that include the "exemplary transformers", the "laggards" and the "hopeless cases", or, if Eurospeak, the first- and second-round candidates for accession and the "partners".¹⁰

However, in stressing the diversity of post-communist transformation don't we run the risk of indulging in "small differences" again; I mean differences that will hardly be visible once we reach a critical distance from the *ancien régime*. Is it worth while inventing once again sophisticated classification schemes in order to squeeze the increasingly similar types with microscopic differences into separate boxes? Fifteen years ago, for example

⁹ Even among the Hungarian ex-reformers one could find a number of leading experts (not infrequently, members of post-communist governments such as Péter Ákos Bod, Péter Medgyessy, Béla Kádár and György Matolcsy) who rejected radical liberalization moves under the banner of some sort of a "socialist market" model.

¹⁰ For influential studies with a comparative thrust, see Anders Aslund, *Building Capitalism: The Transformation of the Former Soviet Bloc*, Cambridge 2002; Daniel Gros and Alfred Steinhilber, *Economic Transition in Central and Eastern Europe: Planting the Seeds*, Cambridge 2004; Gregorz Kolodko, *From Shock to Therapy. The Political Economy of Post-Socialist Transformation*, Oxford 2000; Marc Lavigne, *The Economics of Transition: From Socialist Economy to Market Economy*, London 1999; Jan Svejnar, *Transition Economics: Performance and Challenges*, in: *Journal of Economic Perspectives* 2002/1, pp. 3–28.

⁷ Since the publication of the three volumes of "The Economic History of Eastern Europe 1919–1975", (ed. by Michael Kaser and Edward Albert Radice, Oxford, 1985–7), just a few comprehensive works have been written on the economic history of communism in the region. See e.g., Ivan T. Berend, *Central and Eastern Europe, 1944–1993: Detour from the Periphery to the Periphery*, Cambridge 1996; Andrew C. Janos, *East-Central Europe in the Modern World. The Politics of the Borderlands from Pre- to Post-Communism*, Stanford, 2000. To my knowledge, even country studies are rare. At any rate, in researching the communist period, it is political and social rather than economic history that prevails in our days.

⁸ The metaphors originated in an analysis of what I called the "plan-and-market discourse", the dominant language of reform economics. See my *Compassionate Doubts* (footnote 5), *Reform Economics: The Classification Gap* (footnote 6) and my: *From Reformation to Transformation. Limits to Liberalism in Hungarian Economic Thought*, in: *East European Politics and Societies*, Winter 1991, pp. 41–73.

the Polish model of emerging capitalism could be clearly distinguished from most others by references to the Balcerowicz Plan, the Solidarity or private ownership in agriculture. Well, what remained from these specifics by the time of the accession by Poland to the European Union?

The risk of concentrating on “negligible quantities” would certainly double if we insisted on the thesis of continuity, and tried to derive the current differences *directly* from those prevailing under communism. I am afraid that explaining, for instance, the current plight of the capital market in the Czech Republic simply by means of the underdevelopment of shadow economy or the small size of foreign debts in communist Czechoslovakia would obscure – apologies for the solemn formulation – the revolutionary rupture in the country’s economic history in 1989 leading to the (in)famous scheme of voucher privatization. In fact, it would be difficult to deny that between two periods of “small differences”, the region offered the analyst quite a few larger ones.¹¹

As mentioned, the light came from the East, in my case from the Eastward enlargement of the EU. I am a bit ashamed to admit that I felt a mild apprehension with regard to the Big Bang approach taken by the Commission, and the inclusion of the Baltic states (especially Latvia and Lithuania) as well as to the later co-optation of Bulgaria and Romania by the Union. To avoid misunderstandings, I am happy to see them in the EU, and my unease did not stem from a feeling of Hungarian superiority or an Orientalist attitude toward any ex-communist nation outside “Central Europe”.¹² The apprehension was rather due to the way, in which Brussels assessed institutional adjustment in the candidate countries. By focusing on the legal characteristics of adaptation, the EU regarded two economic institutions of any kind (e.g., the labor market, the banking system or the anti-trust agency) in two countries as equally ripe for integration if, by and large, these institutions have been constituted in legal-organizational terms, following the norms set by the *acquis*, no matter if their cultural attributes (and thus, their actual performance levels) were fairly divergent.

Yet, you don’t need eighty days around the former Soviet globe to recognize that within the same organizational shell (within formally almost

the same industrial firm, local government or stock exchange) one may come across significantly different modes of economic behavior geared by diverging values, habits, beliefs, languages, symbols, etc., that is, diverse cultural practices. It cannot be true, I said to myself, that the “average” worker in Lithuania works as hard as his/her counterpart in Slovenia in the framework of a similarly designed labor market. The “average” civil servant in Prague cannot be as corrupt as his/her counterpart in Budapest or rather in Buchares in the framework of a similarly designed state apparatus. The “average” small entrepreneur in Poland or Hungary must be more knowledgeable about how to make business with a multinational firm than his/her counterpart in Bulgaria in the framework of a similarly designed enterprise sector. Propositions such as these serve in the region as important rules of thumb even with people like myself who dislike using *the* “national character” as an independent variable in comparative analysis.

But how do these truisms relate to the history of socialist economic reform in Hungary? The answer is rather simple and can be summarized in one long sentence: maybe reform economics was a set of opportunistic theories in both political and scientific terms, nonetheless it contributed, even if often in an unintended and/or indirect way, to a substantial change in economic cultures which in turn resulted in much more than just a “small difference” between the institutions of the Hungarian type of socialist reform and post-communists transformation and those of other Eastern European types. Moreover, the cultural specifics emerging during the reform process have exerted a lasting influence on the mode of post-communist transformation. In *this* respect, the thesis of continuity (or, if you please, path dependency) deserves further attention, I believe.

In the lack of any comprehensive study of the cultural components of socialist reform and post-communist transformation in Hungary, the following part of my paper should not be considered but a selection of scattered hypotheses. What I will put under the heading of “the cultural consequence of reform”, some of the readers will prefer to derive from pre-communist history, or, on the contrary, consider a retrospective rationalization made on the basis of post-communist developments. I am afraid that I do not always have strong arguments to deter these sorts of criticism.

2. *The Advantage of Obstruction*

How did reformism contribute to the economic culture of Hungary? Which elements of the reform go beyond a *quantité négligeable* in the long run? I the first part of the paper, I have already apologized for “disregarding many of the larger differences in the institutional/cultural configuration of the r

11 See my *Which Past Matters? Culture and Economic Development in Eastern Europe after 1989*, in: *Developing Cultures*, ed. by Lawrence Harrison and

Peter Berger, New York 2006, pp. 329–349; *Vergangenheit oder Vorvergangenheit? Kultur und Wirtschaftsentwicklung in Osteuropa nach 1989*, in:

Berliner Debatte 2004/5–6, pp. 23–33.

12 See my *Westerweiterung? Zur Metamorphose des Traums von Mitteleuropa*, in: *Transit*, 2001/21, pp. 3–20.

forms.” I chose the term “institutional/cultural configuration” on purpose to avoid focusing on “economic mechanisms”, the pet *organizational* concept of the reformers. Certainly, I did not want to engage in a hair-splitting analysis of the significance (in both contemporary and current terms) of the main organizational measures of the various reform projects starting in 1968, or actually back in 1953. A common place as it is, in any meaningful taxonomy of the history of economic institutions, organizational change can only underpin a country type (e.g., the “Hungarian model”) if it is accompanied by a compatible cultural change that stretches over the boundaries of the economy in a narrow sense. Cultural compatibility lends the new organization stability over time, and helps it become a veritable economic *institution* with embedded cultural practices.

In the lack of that synergy, the organizational shell designed by a given reform project remained empty or got filled in with an ambiguous substance. At a certain point of the history of reforms, the shell might well be regarded as unique in comparison with other communist economies. Historians know a whole lot of such shells; many of the shells were even celebrated as great Hungarian innovations such as (in chronological order) two-level planning, simulating the world prices, or creating “socialist holdings”. However, these reform ideas/experiments were either aborted, petered out rapidly, or were forced to survive under artificial conditions.

Which were the components of Hungarian economic reform dominating its classification before 1989 by both the reformers and their foreign observers? I think at that time most analysts concentrated on

- the abolition of the central planning targets and one-year planning
- the enhanced role of financial regulation (instead of planning in-kind)
- the rise of small entrepreneurship (formal and informal, in- and outside the state sector)
- the relative freedom of market transactions within the state sector, and the relative weakness of hierarchical control
- the relative openness of the economy to (and its reliance on) the West
- the favorable position of agriculture among the development goals
- the favorable position of consumer industries in industrial development
- the favorable position of consumption *per se* as compared to accumulation
- the relative reticence of the party and the army in economic decision-making

This list clearly demonstrates the difficulties of taxonomy. Many of the distinctive features were only distinctive in measure rather than quality (cf. the frequent use of the term “relative” in the classification). Therefore, the Hungarian type could be portrayed as unique only as a specific combination of these features. The Yugoslav economy, for instance, was probably more open, liberal and consumer-oriented at the time but it operated under the

auspices of self-management and federalism protected by the military. Were these large or small differences? – in the lack of a sophisticated model of multi-dimensional comparison,¹³ I would not insist on answering this question. One thing is sure: the differences lost much of their importance after 1989.

Nevertheless, some of the organizational changes behind the distinctive traits of the “Hungarian model” resulted in or were combined with cultural change. The shells got filled in, and, in interacting with the cultural components, their *modus operandi* underwent a profound change. Maybe, eventually these shells, too, collapsed as many other economic and political organizations typical of late communism. Nonetheless, their cultural content could survive (or even prosper) under emerging capitalism.

I will finish with three examples that, in my view, reflect major cultural effects in the long term. They concern macro-economic governance, entrepreneurship and the openness of the economy:

1. Today, the abolition of the mandatory planning targets and the downgrading of planning in kind in Hungary would seem to be just a partial retreat from the ideal of the omnipotent planner, a forgettable phase that I like to call “plan *bricolage*”. Yet, in retrospect, one may realize that these change triggered off a gradual but far-reaching transformation in the group of the macro-planners, a major pillar of the command economy. You can call it professionalization, secularization, Westernization, etc., what counts is the end result: the “commanders” became (quasi) experts, negotiators, I would almost say, civil servants who established a powerful pressure group. Occasionally, this group turned against the party hard-liners, reeducated themselves in modern macro-economics and public policy, and, under the banner of a sort of healthy conservatism, preferred piecemeal engineering and stable governance to across-the-board reforms. Also, they acquired the prestige of the “benevolent technocrat” in the eyes of the Hungarian citizens.¹⁴

2. Today, the tolerance showed by the party state *vis à vis* entrepreneurship within the public sector and the downgrading of hierarchical control in Hungary would seem to be just a partial retreat from the ideal of the socialist firm, a cosmetic change in the organizational structure of companies. Yet, this tolerance resulted in an upsurge of calculative behavior and innovative spirit

¹³ Cf. the papers by William Welsh, Michael Montias and Carmelo Mesa-Lago in: *Comparative Socialist Systems* (footnote 6). In his book “The Socialist System,” János Kornai started to constitute a multi-variable model of reform-making but did not situate the real types in it (see pp. 565–580).

¹⁴ See my *Planning the Transformation?* (footnote 4). The professional authority of leading financial experts of the late Kádár era such as László Anfal, Lajos Bokros, István Hetényi and György Surányi is still unbroken in my country.

a strengthening of the propensity for self-reliance (bordering on self-exploitation) as well as in a proliferation of the habit of hard working and risk taking – both in the case of managers and workers. More importantly, it promoted the rehabilitation of private ownership, individual initiative, rivalry, inequality, the principle of “small is beautiful”, etc. Step by step, the word “entrepreneur” lost the connotation of speculator, adventurer and swindler in the Hungarian language.

3. Today, the opening-up of the Hungarian economy to the West (from the first trade loan to the McDonalds) and the downgrading of CMEA cooperation would seem to be just a partial retreat from the ideal of the “socialist world economy”, an insignificant concession made by the Soviet leadership to a small barrack in the camp. Yet, the “Western connection” that – as is well known – ranged from foreign trade and tourism, through joint ventures to membership in the World Bank and the IMF – gradually rearranged the cultural tool-box of my fellow-citizens. I can hardly find an economic habit, norm or attitude, which was not seriously affected by the encounters with the West. The producer got confronted with Western standards of technology and organization; the consumer experienced a huge quality gap between Western and Eastern commodities; and both of them witnessed a clear divergence of lifestyles, consumption and saving habits, career paths, etc., a large difference between choice and paternalistic care, between various interpretations of fairness, responsibility, accuracy and the like. In the meantime, the Westerner, no matter if he/she was an investor, a manager or a tourist, ceased to carry a negative symbolic meaning.

To avoid misunderstandings, it is not my intention to contend that these three institutional/cultural components of the Hungarian reform process are the only (or most) important ones. Similarly, I am far from suggesting that they embody an unquestionable uniqueness of Hungary in any typology of economic reform. At the same time, I do want to say that, despite the fact that the cultural ingredients of these institutions did not take shape smoothly, they had a durable impact upon the way, in which communism collapsed and capitalism emerged in Hungary. To be sure, it would be extremely difficult to comprehend a whole series of characteristic features of post-communist transformation in my country, such as “spontaneous privatization”, stabilization without shock therapy, rapid deregulation of foreign economic relations, or later fast privatization based on foreign ownership, resolute deregulation of welfare services, etc., if we disregarded the preliminary “disenchantment” (*Entzauberung*) of the planned economy by the reforms and the long process of acculturation, that is, a sort of capitalist reenchancement.

In closing, let me return to my own profession to admit that this disenchantment would have hardly been so successful without “a little help from

my friends”, reform economists in Hungary, no matter how much time they wasted by designing the perpetuum mobile of the socialist market. In the 1970s and 1980s, I was convinced that the smarter they experiment with market simulation, the more they contribute (not to the collapse but) to the survival of the communist system. Witnessing the desperate attempts by the “plan bricoleurs” and “reform mongers” to invent new economic mechanisms and test new quasi-political schemes, I failed to observe the phenomenon of a creeping subversion, to use the language of the Cold War, from inside the system.

Prior to 1989, the slow-down of time worried me endlessly. As blind as I was, I did not recognize the underlying advantage of obstruction: cultures need time to strike roots, especially in a hostile environment.

János Mátyás Kovács