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# Reform-Bargaining in Hungary: An Interview with Dr. János Matyas Kovács

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The following interview was conducted on July 18, 1985 with Dr. János M. Kovács, research fellow at the Institute of Economics, Hungarian Academy of Sciences in Budapest.<sup>1</sup> Dr. Kovács has published numerous articles on the topic of economic reform in Hungarian journals.<sup>2</sup> In this interview, he provides a descriptive and critical account of Hungary's reform process, beginning with the New Economic Mechanism in 1968 and extending up to the most recent reform proposals of the mid-1980s.

Question: Dr. Kovács, if you were to describe the Hungarian economic reform to interested economists in the West, how would you begin explaining this complex topic?

Kovács: Hungary serves as an important setting for research concerning the topic of economic reform. This is because even in this country with two decades of legitimate reforms, there is a revealed discrepancy between the real economic reform process, on the one hand, and reform thinking, on the other. Here, in Hungary, we often refer to this latter as "reform economics."

In the early 1980s, reform thinking went through a very vivid development. I refer to this development as the "totalization" of reform thinking. What actually occurred in Hungary during this time was that "general reform" emerged as a concept. This is to be differentiated from the previous reform proposals made after 1956, which were more limited in scope, that is, limited mostly to economic processes. In contrast, reform thinking in Hungary now combines political and economic reform.

Q: Would you define what is meant by the concept, "general reform" in greater detail?

Kovács: There have been times here in Hungary when the economists have thought that there were great possibilities for implementing

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<sup>1</sup>The interviewer would like to express his thanks to the International Research and Exchanges Board (IREX) for funding a research exchange with the Institute of Economics of the Hungarian Academy of Sciences during the summer of 1985.

<sup>2</sup>See, for example, "In the Thick of Reform Bargaining: A Public Debate on the Reform of the Reform," *Valóság*, 1984/3 and "Reform Economics or Economic Reform Thoughts? An Historical Essay," *Valóság*, 1986, forthcoming.

comprehensive and sophisticated reforms. In the last twenty years reform economists always compared the potential for reform to the reform steps which were originally planned and actually accomplished by the New Economic Mechanism (NEM) of 1968. I might say, parenthetically, that almost everyone agrees that the NEM was only a half reform, in the sense that the liberalization of the capital and labor markets did not go very far and the institutional system of the economic management was not altered fundamentally, i.e., the branch ministries, as an example, remained intact. It was a half reform in spite of the fact that the compulsory planning directives sent down from the center were abolished. What is more, the NEM of 1968 was a compromise, if we compare it with the initial reform-program adopted by the Party in 1966.

The shortcomings of the NEM have made Hungary's reform economists interested in going one or two steps further and introducing another, more comprehensive reform. Such steps would also be intended to go beyond economic reform in the narrow sense and address political reform as well. The term "political" here means how the economy is controlled from above — which institutions perform this task and what kinds of interventions are applied by them. That is, while the term "economic" is interpreted by the reform economists in its broad sense, politics is considered in a limited way.

Q: Has this tendency of "generalization" been occurring in Hungary in the 1980s?

Kovács: Yes, but its historical roots are in the 1970s. Márton Tardos, of the Institute of Economics, published an article in 1972 in which he introduced the proposal of the holding principle into reform discussions.<sup>3</sup> What was symptomatic was that Tardos proposed that holding organizations replace the role of the traditional branch ministries. These holding institutions would be responsible for increasing their capital and not for achieving specific production targets. Therefore they would not be attached to the central administration but directly to Parliament. I think that this proposal can be marked as the first major publicized step after 1968 towards opening the economic reform process to include politics.

Prior to Tardos' seminal article (and for some years after it), encouraging political liberalization was considered a taboo. Virtually no one spoke about the potential of parliamentary control over economic administration, and especially about the changing role of the party leadership in the economy. Since this proposal, however, reform economists have tended to encourage liberalization: first, in the so called

<sup>3</sup>"The Problems of Economic Competition in Hungary," *Közgazdasági Szemle* (1972):7-8.

“recentralisation” period of 1972-78. Moreover, they did it in a rather defensive way, that is, by criticizing the expansion of state interventions. Then after 1978, their demands became increasingly offensive. In the early 1980s sensitive topics were addressed. This included controversial issues, such as: the second economy, self-management, the economic role of the regional party organizations, and the like. Economists, not even very radical ones, began to speak openly about the “generalization” of the reform. This is what I have come to call the totalization of reform thinking.

Q: What exactly does totalization mean? Are you referring to a complete reorganization of the political-institutional structure and a proposal for a new relationship between the economy and the center?

Kovács: Yes and no. There are important programs concerning this totalization, but they do not aim at *complete* reorganization. They are aware of the final constraints, and do not question the one-party system or try to introduce the privatization of property on a large scale. Totalization means cumulative liberalization (deregulation), that is, stopping at the winding frontier of “social” and “socialist” market economy.

Perhaps the most interesting proposal in this context is the modification of the role of the party organizations concerning the control and direction of the economy. This is a very delicate topic for which analytical research has hardly begun in Hungary. Therefore, even the radical reform economists are very careful when discussing it. In public proposals, they have tried to limit themselves to the most important dimensions. For example, reform economists do not propose the abolition of party control in the economy. Rather, they are advocating the limitation of party interventions to the higher echelons. Anyway, it is good that the need to study this field is officially recognized.

There were actual public proposals to abolish the direct controlling activities of the local party organizations and the party unit organizations in the enterprises. The tone of the proposals went something like this: “Let them (the Party) retreat to the medium and higher administrative levels.” Naturally, the county-party, that is, the territorial organizations and, of course, the Central Committee were not really affected by these suggestions. Then the proposals were watered down. According to the new compromise, the local party organizations should not retreat from controlling business activities but must improve their own work through diminishing day-to-day operative interventions.

Q: If I may paraphrase: You are saying that the proposals were to make the individual production units more independent. In other words, to distance them from the control of the political hierarchy.

Kovács: The essence of the proposals was that the individual production units would be controlled more by the technocratic than the political

apparatus, while the elements of worker self-management would also be strengthened. There were a lot of proposals regarding exactly how to reorganize the enterprise structure. There was a proposal advocating large holding organizations and another one for worker self-management. A third one advocated retaining the hierarchy of the branch-ministerial leadership in some sectors of heavy industry and public services.

What is interesting is that proposals of this sort, or even this approach of recommending alternatives in property rights issues, has historically been a real taboo in most of the socialist countries. At the time that these proposals were introduced, the reform economists said: "Let us retain the competence of the higher and medium levels of the party organization and the administration, and let us gain them as potential allies in order to diminish the role of the various lower layers." They also believed what they promised: That is, central management would be more efficient if lower level authorities reduced their interventions. What is even more interesting is that the party leadership in a way tends to accept the principle of self-management but examines the holding principle very cautiously.

Q: The proposal for these holding enterprises advocated the separation of ownership of property and the management of economic activity? Kovács: I think this proposal was especially significant because it introduced the innovative idea of separating both the exercising of property rights and the business activities from the traditional administrative hierarchy. Numerous Hungarian economists are convinced that the sphere of enterprise autonomy cannot be broadened within the existing sectoral management system.

Totalization also means radicalization. In the public reform thinking of the early 1980s, there appeared detailed proposals for privatization or socialization of some property (here, I am speaking about the various forms of small entrepreneurship, cooperatives, etc.), for strengthening economic contacts with the Western world, and restructuring the links in Comecon. Along with these proposals, reform economists began to speak about new economic institutions rather clearly again. Here, I am referring to the reintroduction or modification of basic financial institutions. It is the liberalization of the capital allocation system that seems to be the most sophisticated program of the new reform offensive. We speak a lot about the setting up of some kind of a stock exchange, reorganizing the banking system to a multi-level or at least to a two-level banking system, the formation of new banks for supplying capital to small businesses, and the like. One peculiar feature regarding the generalization of reform thinking, is the initiating role assumed by the government, at least in the beginning. In the early 1980s, the government had realized old and

formerly neglected proposals of the reform economists before they had the chance (or the courage) to advocate them again. Perhaps the most radical steps, such as the formation of small entrepreneurial units within state enterprises, splitting up large trusts, amalgamation of the branch ministries into a single Ministry of Industry, joining the IMF and the World Bank, and the like, had been taken by the government before the upswing in reform thinking started. This policy, labelled by the government as "the new path of development," preceded in certain points the period which is often called "the third wave of the reform."<sup>4</sup> Many proposals which had been considered either taboo or of secondary importance when the New Economic Mechanism was being discussed and drafted between 1965 and 1968, were made public in this most recent round of reforms. In 1968 the idea was: "Let us do it, but not speak about it too loudly." Now the attitude of the reform economists has changed. They have learned in the meantime, that institutional guarantees against a possible reversal of the new reforms are also needed. In order to obtain these guarantees, they gave publicity to their programs even if they did run the risk of being attacked by their opponents. Publicity became the core of the totalization process.

Totalization or radicalization was at the same time a disillusionment process. This was a process of disappointment, in which reform economists shed their illusions about the gradual reform process. In the eighties they are rather speaking about instant reform moves, and not about gradualism. Once they had envisaged a gradual process of reform with "market brakes" (as we called them), which were to be released in due course. Yet this turned out to be the disappointing experience of the 1970s. The experience was that if the reformers proposed a gradual process, the reform would surely be cut somewhere in the middle. Thus, totalization also means proposing a reform package that will be instantly implemented. It is, however, a paradoxical feature of reform thinking. If you demand partial and gradual reforms, those parts of the economic system which were not reformed may hinder the entire reform process. But if you demand "all at once," the reform will likely be halted before it has a chance to begin. The same holds true with social backing of the reform moves. It is what I like to call the "alliance paradox" of the reform. The alternatives of the "reform from above" and the "reform from below" can hardly be reconciled.

Of course, even the most radical economists injected a so-called short "consolidation" phase into their reform projects at the beginning of the eighties because of the economic difficulties of the country. At the same time, many moderate reform economists tried to behave as an inter-

<sup>4</sup>The first wave came before 1956, the second one before 1968.

mediary in order to transmit the radical reform proposals to the government in a palatable way.

Q: In what type of a public forum were these reform ideas presented?  
Kovács: There were several public forums, but the semi-public ones are perhaps to be noted as the most influential. By these I mean joint, reform committees in the Party and the government, as well as discussions in research institutes, and the like. Also, a vast amount of semi-official publications are written and distributed. Sometimes we call them, ironically, "official *samizdat* literature," for it is circulating relatively freely among professionals. Reform bargaining takes place through these sorts of forums.

Q: Does this reform bargaining take the form of a dialogue?  
Kovács: Yes, it is a dialogue, but not a simple bilateral one. There are many important participants in the game, a game that also reflects power relations.

Q: Is it between political leaders and intellectuals?  
Kovács: Bargaining includes very important negotiations (maybe the decisive ones), in which reform economists are often not represented at all. Yet, I am mainly interested in understanding the dialogue between reform economists and the economic apparatus of the state. Though this is not likely the pivotal point in the bargaining process, nevertheless, as a student of economic theory, I would like to understand how this political game affects the development of reform economics.

The term "reform bargaining" refers to a rather cyclical process that has been observed in Hungary for some years. In December 1978 there was a Central Committee meeting, marking a break in the development policy of the earlier part of the 1970s. The new policy was designed for implementing an import restriction and stagnation (or slow growth) program for the Hungarian economy. This, together with the halting of the recentralization process, was called "the new path of development." The policy declarations from that time on provoked reform thinkers into publishing their views about economic and political liberalization. The most important breakthrough was made by Rezső Nyers and Márton Tardos, when they published a co-authored article on the continuation of the 1968 reform.<sup>5</sup>

Then other reform economists realized that they were, even if for a short time, rather free to publish, to take part in reform committees, and the like. They also realized in this period that Hungary's very bad foreign liquidity situation in 1981 and 1982 provided the psychological conditions for making radical reform steps. Because it was assumed that this period of open criticism might be short-lived, reform economists

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<sup>5</sup> "What Economic Policy Should We Adopt?" *Acta Oeconomica*, Vol. 22, Nos. 1-2 (1979).

decided that they should utilize it as quickly as possible. This occurred during the years from 1979 to 1982.

Radical reform economists were permitted to speak about the "reform of the reform," or about the possibility of a second round of economic reforms. During this time, no one spoke about the continued development of the NEM anymore, for this was the official phrase for gradual change. Radical reform economists began to advocate openly a new reform, a second reform. They encouraged the government: "Let us go before the public and say that a second reform will be a breaking with the old policy of recentralization, and we will make an entirely new reform, at least as radical as the NEM of 1968."

This proposal process has to be thought of as having a cyclical characteristic. I am speaking about a cycle here because there was a discernible upswing to a peak in the autumn of 1982. At this point in the cycle, several important factors changed. The offensive in reform thinking gave way to compromises. Politicians declared that there would not be a second reform; instead, they promised further development in reform policies. They also gave the ideological opponents of liberalization a chance to express their criticism freely. This had not been the case before 1968. The improvement of the state of the economy in 1982/83 probably contributed to the falling spirit of the authorities to take risky reform steps, too.

In the period from the autumn of 1982 until the spring of 1984, when a new decision was made on the reform by the Central Committee, the radical reform proposals were negotiated and compromised. This can be characterized as the second stage in bargaining. I have referred to it as the beginning of a negative-defensive bargaining phase, which was preceded by a positive-offensive one. With the coming of a negative bargaining phase, radical economists had to abandon or tame many of their proposals, and split up systematic reform projects.

Q: Could I ask you about the social framework for bargaining?

Kovács: I think it is unique to Hungary and to the realities that we can speak about reform bargaining. It presupposes that the political system — often referred to in the sociological literature as "Kadarism" — is rather tolerant, pragmatic, and flexible. It prefers *realpolitik* and tries to build up national consensus around the reforms, which are considered as a legitimating principle of the system. Similarly, and something which may be unknown to Western observers, is the emergence of a rather literate and enlightened state apparatus at the level of economic control, which is not without reformist intentions. I am speaking here first of all about the functional (not sectoral) government agencies, for example, the Planning Office and the Finance Ministry. In Hungary there has emerged a layer of high level government technocrats who are committed to the fate of the 1968 reform. These professionals have

essentially made their careers concomitantly with the NEM. Gradually, this group has been functioning as a sort of intermediary between radical intellectuals and top level political strata. They safeguarded the principles of the NEM in bad times and occasionally even provided shelter for reform economists.

Q: Are these radical intellectuals located primarily at the research institutions?

Kovács: Some are located at research institutions, others are working in government bodies or live as free intellectuals. What is interesting is that radical reform economists and government politicians are not completely separated from each other. In addition to common convictions, there are actually very important career channels connecting them. For example, if you are a Minister now, you may be the director of our Institute of Economics later on. For example, at the beginning of the recentralization period in 1974, Rezső Nyers suddenly moved from the Politbureau, where he had been responsible for the reform, to head our research institute.

For these groups, there also exists an institutional framework for the bargaining process to which I have been referring. It appears as a multi-level system of joint committees, a tradition of the 1968 reform. The recent committees elaborating the reform proposals have partly been composed of radical economists, too. It is the relatively young, radical intellectuals who really do the work on these reform committees, often irrespective of the institutions from which they originate.

Q: These intellectuals are the ones conducting research and providing a scientific foundation for policy recommendations?

Kovács: Yes, and this is again rather unique to Hungary. For us to have radical economists *en masse* in the research institutes is a bit of an exception in the Eastern world. It is unusual that these academic institutions could develop comparatively freely — I mean ideologically free. We at the research institutes are separated from the orthodox political economy which is prevalent mostly in the universities. What is more, this "textbook political economy" is not immune at all from the contaminating effects of reform economics. That is the first precondition. The second precondition is that within the economic apparatus of the state, the bodies conducting economic research are also in a position for making reform policy proposals. For example, in the case of Hungary, the research institutions of the Planning Office, the Finance Ministry, etc., have the possibility to oppose even publicly the policies of the branch ministries.

Q: These institutions have their own research staffs?

Kovács: Yes, they are well supplied with young professionals who frequently work together with the reform generation of 1968. These research institutes are, to a degree, dependent on the assistance of these

scholars when it comes to the elaboration of the reform projects in detail. When I speak about what is unique to Hungary, the fact must not be neglected that the political leadership does not want to antagonize these intellectuals, working either in academic or government institutions. At times, a conciliatory mood prevails even with respect to radical groups.

Q: Are you saying that the political leaders would like to allow the intellectuals who are committed to reform to make their social contribution?

Kovács: When I first began writing about reform bargaining, I was broadly opposed to it. My colleagues told me that it was not a real bargaining process, a negotiation, nor even a useful dialogue. However, when I am asked about the power of the research institutes in the game, I invariably answer that reform economists do have some power, institutional links, and some capability for formulating real reform programs. Here are some examples.

During periods when the government is in trouble and needs people who can give advice — scholarly advice — the intellectuals congregated at the research institutes may be useful as “clerks” or “fortune-tellers.” This is what the English call “expert power.” It is not very good for the government when it is criticized in international circles for incapability to come to terms with intellectuals here. Therefore, we know that, to some degree, the politicians have to count on reform economists. Yet, this is not to imply that our power as researchers is too significant. I would say that the bargaining activity of reform economists influences the opinions of politicians less than it affects the development of reform economics itself. In reform economics, one may rather easily trace back contraction or expansion in professional literature; modification of the structure of scientific problems; moderation or radicalization of the general attitude of the economists, depending on the nature of the actual bargaining phase.

Getting back to the main point, this period of positive bargaining in the early eighties was possibly encouraged by the problem of Hungary's indebtedness and the hard currency liquidity crisis. This situation upgraded the positions of the reform economists.

Q: Are you saying that the conditions for reform bargaining improved because of Hungary's indebtedness?

Kovács: Here I would rather speak about another controversial feature of reform thinking, which I tend to call the “crisis paradox.” To state it briefly: In crisis situations reform packages find a ready market among politicians. The reform proposals are nevertheless hard to realize from economic aspects, for liberalization is a risky business. True, crises also may involve centralization and disciplinary actions, too.

In addition, the state apparatus is becoming increasingly self-

sufficient in making its own reform proposals through the research wings at the offices. As a consequence, the outside, independent research institutes are less and less in a position to influence the concrete elaboration of the reform process. This occurred in the period between 1982 and 1984, when reform bargaining reached the phase of compromises. In this period academics did not have the chance either to "go slow" or to retire, as if they were on strike from advisory activities. They simply lost their intellectual monopoly.

Q: Was it a new development that these intellectuals were congregating around the technical offices? Anyway, who are the reform economists? Kovács: To answer your first question, I think that it was not a very new development. For some years, these offices had attracted a broad range of intellectuals brought up in the reformist mood. As regards the question of how to define the group of reform economists, the early eighties were unusual. Reform economists presented themselves in some moments as self-confident thinkers who were in a position to state that: "I am a reform economist." One could not hear the combination of these two words in the 1970s. Now, when switching on the television, one might see a leading banker, who is collecting a lot of money in the West, say in an interview that he is a reform economist. You could hear Rezso Nyers assert: "I am a reform economist." The same applies to the vice president of the Planning Office, the minister of finance, etc. Nobody says: "I am a reform economist and a Marxist."

It reflects the softening of some ideological constraints. It is a sort of secularization within the totalization process of reform thinking. In this atmosphere there are only a few professionals who do not want to be considered reform economists.

Q: What do you see as the relationship between the civil sphere, as represented through the Parliament, on the one hand, and the higher levels of the bureaucracy, on the other? Is there a possibility for bargaining between these two spheres, or do you see them as completely separated politically?

Kovács: When I speak about the real bargaining power of radical intellectuals in the reform bargaining process, I have in mind a sort of imitation of a social movement.

Economists in Hungary know that they do not have a real social backing. That is, they are not a reform party. They do not have a direct mass base. Yet, when they are "negotiating" with the government, they behave as if they had this mass backing, as if they represented a real threatening force that must be reckoned with. This strategy was quite visible in the years 1982-83. Reform economists were warning the politicians: "If you do not implement new reforms, you may see that it is going to be very similar to the Polish case here."

This sort of imitation is occasionally successful. It appears as a strange

distribution of work in Hungarian social life, that these intellectuals are sometimes treated by the government and party leaders as something like meteorologists. They are forecasting some sort of political disobedience or political dangers. The politicians know that if they do not have these fairly autonomous social thinkers, then they may be blinded by the advice of their own governmental groups. The tragedy of 1956 has already taught them that it is better to permit some diversity in social thinking, if for no other reason than as a reality check.

Accordingly, the bargaining process begins with the critique of the actual economic policy and the extrapolation of the expected difficulties. The first element of the choreography involves the formulation of rather strong demands by the reformers. When reform economists in turn are threatened with labels such as revisionism, bourgeois liberalism, or petit-bourgeois mentality, then they retreat. After a while, you may end up at some kind of a bargaining equilibrium. When this process begins, there is no way to know where this equilibrium will be.

Q: Dr. Kovács, when you talk about the radical reformers, to what degree do you see them as unified? Do they stand as a unified group or do they have several different perspectives in relation to the political apparatus? Is there a common understanding about the directions in which reformers should be moving?

Kovács: If you or I were to ask one of the reform economists: "Do you know anyone who has similar thoughts to your own about the prospects of economic reform in Hungary," they would respond by saying: "I am a unique person and I have my own point of view." This individualistic approach is a new sign in Hungarian reform thinking. It reflects the reduction of forced ideological solidarity among reformers. Yet, there occurs a certain uniformity of reform thinking as far as economics is concerned. There have traditionally been criticisms, commonly accepted by economists, which were addressed to the surviving elements of the "old mechanism." Among reform thinkers there has been an almost universal acceptance that a recentralization process took place during the 1970s. There has also been a consensus that the measures taken along the so-called "new path of development" are not enough. Reform economists have almost unanimously criticized the government's use of direct controls and restriction policy. Reformers have been united in arguing for the abolition of gradualism and calling for new reforms. Although there have been discussions among reform economists about enterprise self-management, the holding principle, and so on, the core of these proposals received universal support from them. Everyone agrees that the hierarchical nature of the management system has to be changed, the administration and the enterprise structure has to be separated, and the government has to manage the economy with indirect, mostly fiscal and monetary means, instead of

direct administrative operations. Reform economists also share the view, that the new reform steps have to start from the position of relative excess supply in the economy, because after the introduction of the NEM they realized how shortages gave birth to recentralization measures.

These are the criticisms and proposals for change. It is, however, a difficult question whether the common principles of the critique and of the recommendations can be integrated into a compact theoretical system of the so-called "socialist (regulated) market economy" or reform economics. I am rather skeptical concerning the scientific achievements of reform thinking. That is why I also search for ideological and political interpretations of the reform ideas. To avoid misunderstandings, the scholarly work of the reformers far surpasses what Stalinist political economy has ever done. My skepticism is directed towards the theoretical possibilities of mixing the principles of collectivism and liberalism in a Soviet-type economy.

Let me go back to your original question. There are naturally alternative directions in Hungarian reform thinking concerning such questions as where to begin, how deeply to change, how quickly to go ahead, and the like. It may be an exciting intellectual task to differentiate the moderates and the radicals, the "etatsists" and the "autonomists," the adherents of the first and those of the second economy, those who pay attention to the enterprise sector and those who first want to reform the functions and the structure of the government, and so on. From an ideological perspective these thinkers are surely at variance with each other. However, I do not yet see sufficient differences which might lead to the construction of alternative models within the "reformist school."

In any case, as a reaction to the recentralization period of the 1970s and the restrictive policies of the 1980s, reformers grew more and more uniform in their criticisms. They slowly abandoned speaking about a preparatory process of the new reform, for they feared that a possible success of a "consolidation period" might legitimize the continuation of the "manual controls" of the eighties. Reform economists knew, of course, that liberalization is like skating on thin ice. If they would have actually been permitted to implement their suggestions, it could have stimulated inflationary pressures or aggravated a foreign exchange liquidity crisis, or something major like this. Ironically, out of some strange luck, radical reformers were not permitted to implement their reform package during the year 1984.

Q: Could you explain more about the 1984 reforms? For example, were these reforms passed as legislative laws?

Kovács: The 1984 reforms, as always, were initially the decision of the Central Committee. After a political decision has been made, there is a

rather slow legislative procedure according to the traditional concept of gradualism. Consequently, the whole reform process tends to be delayed. As the reform is prolonged and made gradual, it is separated into several small packages, which are exposed to renegotiation and new compromises.

The decisions made in 1984 mostly affected the organization of the enterprises and the links between the ministries and the enterprises. In comparison with the extensive character of the 1968 reform, the 1984 proposals were rather mild and eclectic. In addition to some changes in wage control and profit taxation, the main topic of the whole reform process ended up in a restructuring of the organization of industry, state agriculture, and commerce. Nevertheless, it is an exceptional phenomenon that enterprises are confronted with choosing from among three schemes of organization: traditional ministerial guidance, a kind of workers' participation scheme, and a Yugoslavian-type of self-management. This may be a breakthrough on the road to real enterprise autonomy in some competitive sectors of the economy. It is an open question, of course, whether the interventionism of the branch ministries will not be replaced by that of the functional bodies or the territorial organizations. It is sure, however, that the reform package was cut into pieces. For example, proposals for experimenting with the holding principle, two-level banking, and unemployment insurance were actually abandoned in advance or delayed.

Q: Dr. Kovács, would you regard your description of how these reform proposals were abandoned as symptomatic of the reform bargaining process to which you have been referring.

Kovács: If parts of the reform are abandoned, they are often not abandoned forever. The fate of the proposals to abolish branch ministries, to create small, semi-private enterprises, and to connect the internal price system with world market prices serves as a good example. It may be the case that the legislative proposals include demands which were earlier rejected.

Yet, this does not mean that reform thinking is stopped. Reform economists are restructuring their demands in order to adapt to the tightening opportunities, and not to jeopardize the compromises. There is no need to declare an official silence of publications of radical reformers, for they are almost automatically moderating their original reform proposals. They are generally stepping aside disappointedly for a while, preparing a new offensive, and hoping that the most recent one was not completely unsuccessful.

As regards the legislative procedures, there is usually some information which one can glean concerning official discussions. Reform bargaining goes on, but it is first of all confined to intragovernmental negotiations where the functional bodies and the branch ministries

frequently play opposing roles. Within this setup it is generally the financial and, perhaps, the planning apparatus that attempts to preserve what remained from the radical reform proposals. Unfortunately, we know very little about these discussions. Interdepartmental bargaining is a blank area on the map of our economic knowledge, not to speak of the role played by the party center.

As a student of reform economics, I find it interesting that in this intermediary phase of bargaining, that is, between a reform offensive and a defensive, reform economists — at least in Hungary — may survive as such. Though frustrated, they do not lose their posts. Their profession is institutionalized. There is a discernible continuity in scholarly work that promotes scientific achievement. It's a disadvantage, however, that the lack of catharsis in the bargaining game does not help develop self-criticism in reform thinking.

Q: When reform bargaining takes place between the technical and the functional ministries, is it, in your opinion, a dynamic process, that is, a giving and taking process between these two groups?

Kovacs: I suppose that it is rather dynamic. It is, at the same time, a bargaining process without much responsibility. If they do not bargain publicly, and these groups (and their sub-groups) are not inclined to do so, then they can retreat from a proposal when they so choose, and can also change their promises when they so choose. This occurs freely when there is no public control. It is a multilateral channelling of information that may go in vicious circles. One never knows when the higher-level party apparatus will step into the process, when they will make necessary decisions and assume responsibility. We do not know from outside who the referees are. It is also unclear who is the winner of the game and what his dominant strategy is like.

We can only guess that the branch ministries, representing the demand for growth of certain industries or big state enterprises, have lost some positions on the "new path of development" at the end of the 1970s and the beginning of the 1980s. And inversely, the functional bodies, which were forced back in the recentralization period of the seventies, have successfully come into prominence in the last years when macro-economic equilibrium was at stake. But every victory is doubtful. When bargaining and decision-making are not public, decisions tend not to be enforced in a regulated way. Decisions, and their enforcement, may take an *ad hoc* form.

Q: Then you must regard the bargaining between the intellectuals (for example, at the Institute of Economics) and the leaders in the power structure as a constructive political process.

Kovacs: I think that intra-apparatus bargaining is often constructive, too, independently of its uncertain nature. Without the help of the functional ministries, reform economists could never have achieved

their aims. On the other hand, there are not built-in guarantees in the bargaining process between reform economists and government technocrats to reach constructive results either.

Q: Do you find that there are other institutions such as the trade unions and consumer groups engaging in reform bargaining here in Hungary? Kovács: I would like to repeat that when examining reform bargaining, my point of departure is reform economics. I am interested in the relationship between the reform economists and the economic government. Of course, I know the political sphere has large and important groups to consider. However, consumer groups are actually nonexistent in Hungary. The trade unions, on the other hand, are growing in importance. Their political power appears to be increasing mostly in proportion to the decrease of the living standard of the population in recent years.

Yet, the trade unions cannot make decisions autonomously. Rather, these groups are frequently influencing the party leadership to work against some proposals of the radical reform groups. The trade unions played an important role in assisting the recentralization process at the beginning of the 1970s. Again in the early 1980s, the trade unions have started to increase their influence. But now the reformers try to find a way to persuade them to support liberal reforms.

Reform thinkers will probably not have enough public support in the future if they do not integrate socio-political programs into their economic reform projects. By this, I mean that programs such as the reform of the taxation and the pension system or changes in health care, as well as anti-inflation or unemployment insurance programs, have to be included as parts of the economic reforms.

At the end of the sixties and the beginning of the seventies, reform thinkers were mainly concerned with changes in the economic sector. This was actually a sad thing because the critics of the reform could utilize the narrow focus of the reforms, and thus play on some direct feelings of workers. Workers in large enterprises were led to believe that their relative wages were declining because of the reformers, who were encouraging such things as small businesses, agricultural cooperatives, and the like. Thus, the recentralization process during the 1970s began with the rehabilitation of the big state enterprises, also reflecting the trade unions' interests.

A recent innovation in Hungary, regarding the totalization of reform thinking, is that the concept of general reform has broadened its scope. Most recently, general reform has not only come to include economics and politics, but social policy as well.

Q: Isn't it difficult for reformers to deal in this area of social questions? Hasn't this aspect of Hungarian politics been reserved more for the Party?

Kovács: Let me emphasize that reform economists in 1968 were rather dogmatic in this respect. Originally they did not want to neglect social issues with the NEM. Yet the tactic was first to have reforms that would start the economy growing, and afterwards, socio-political questions could better be addressed and solved. Now the mood of thinking has changed somewhat. Currently, reform is being thought of as a simultaneous liberalization, including the introduction of comprehensive, social-political programs.

Q: Do you think that comprehensive, social-economic reforms, in addition to the usual proposals for reform of the industrial structure, would feasibly give reformers much more political backing?

Kovács: Yes, but they are risking more as well. When reformers are attempting to integrate new elements into their reform programs, the whole reform process becomes more difficult to implement effectively. It is well known that if reformers are envisaging a liberalization program, they increase risks of creating other problems, such as higher inflation, bigger balance of payment deficits, and more unemployment. And conversely, it takes a lot of money to provide unemployment benefits and cost of living adjustments, as well as to broaden the health or the pension system.

It is interesting to note that currently the actual reform programs in social policy are not infrequently proposed by economists and sociologists together. Right now in Hungary, there is an innovative, scientific program regarding social policy. The Sociological Institute of the Hungarian Academy of Sciences is heading this project. Sociological specialists (you may call them "reform sociologists") are trying to facilitate a major reorganization. One such proposal is for a "Ministry for Social Policy," which would assume a substantial portion of socio-political decision-making activity. Maybe it will lead to an *etatist* of social policy, but eventually a new lobby may come into being. Currently, no single institution in Hungary assumes responsibility for social politics. The trade union does not bargain systematically over wage indexing, unemployment, the system of health care, formulating a poverty level, etc. Therefore some sociologists are expecting that a new pressure group within the government might be more successful.

Q: Can you describe in some detail what I have heard you refer to as macroeconomic bargaining?

Kovács: I use the word "macroeconomic" in its original sense. I speak about bargaining games where nationwide economic issues are negotiated. It's quite natural that reform bargaining falls into this category. It's peculiar, however, that in Hungary, other types of macroeconomic bargaining are usually interwoven with reform bargaining, too. Liberalization serves as a *conditio sine qua non* in solving almost every problem of the national economy even when structural, technical or international

matters are concerned, not to speak of economic policies in which it is beyond all doubt that the reforming of the "mechanisms" is inevitable. I have already mentioned that we are ill provided with information about horizontal bargaining within the government. We know a bit more about vertical "plan (or regulator) bargaining," as we call it, between the ministries and the enterprises. In both cases our knowledge is mostly confined to specific issues, for example, how the firms are deliberately holding back on their performance in order to have the planning indicators reduced, or to get a special financial allowance. What should also be included here is how the ministries conflict or cooperate with each other in settling such cases. Yet, we have hardly any information about how synthetic decisions of a macroeconomic nature are made (say bargaining on a five-year plan of the national economy). To understand reform bargaining may be a small step towards the conceptualization of other macroeconomic bargaining processes.

Q: Are you hopeful about the future? It seems that a tradition has developed here in Hungary in which the research economists have a high degree of scientific capability. It also appears that this group has managed to establish itself, and to some degree, incorporate itself into the decision-making process. From this perspective, are you hopeful that this process will continue and, if so, do you think that there is a possibility that the reform process can be speeded up? That is, can the time between the period of economic research and policy implementation be decreased, now or at any point in the foreseeable future?

Kovács: I am not very optimistic that the lag time between research and policy implementation will be reduced. However, I am rather optimistic when we are speaking about the possibility of conserving our social context. The social role of the reform economists has somehow come to be institutionalized, though not completely formally. True, in principle, the situation can be reversed from one minute to the next. Yet, reformers have established their role over a period of 20 years or more, and therefore it has some inertia.

If we compare the positions of the reformers in Hungary with other socialist countries, it appears that we are not doing too badly. After 1956, Hungarian reform thinking was ideologically watered down only twice: at the turn of the fifties and the sixties, and in the second and third quarters of the seventies. In both cases the official critique of "market socialism" lasted for years and not for decades. In the seventies the ideological attacks were not universal, and the silence was only partial. Q: Are you saying it is unique to Hungary that reformers are playing an important role in determining the direction of change in the economy and society, despite the cyclical periods in which their ideas are suppressed?

Kovács: Suppression, in my opinion, is too hard a word to use here, at

least when addressing the time frame beginning with the introduction of the NEM in 1968. Instead, I would rather use the term "defensive" to express the idea reform economists are not deprived of their means to defend themselves in bad times either. They are not removed from their offices, are not declared the enemy of the people, and they even have protectors in the government.

As far as cycles in reform thinking are concerned, it is again a topic which we know too little about. I think that first it would be necessary to separate fluctuations of reform thinking from those of reform policy, because they often diverge. Upswings in reform economics can precede, even substitute for, real reforms. Basic reform measures can be taken without direct theoretical preparation. It is unclear whether there is regular periodicity in the fluctuations of reform thinking. Perhaps it would even be better to call them "reform-quantums" instead of "reform-waves." Yet what still remains problematic is how the bar-gaining process is interrelated with these fluctuations in the economy. We just do not know how economic science develops during the offensive phases. Is it a totalization process from scientific aspects, too, or would it be more appropriate to speak about ideological radicalization of reform thinking? These are important questions to consider. Totalization may lead the reform economists up to the final limits of "socialist market economics." If they will not be driven far back from there (and let us hope not), we will have time to find answers to these exciting questions.