

FROM WHERE TO WHERE? REFLECTIONS ON HUNGARY'S SOCIAL REVOLUTION

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There is a revolution going on in Eastern Europe. That much is known for sure. Perhaps it can also be said that some form of capitalism is evolving in Eastern Europe. Everything else is uncertain. We do not even know exactly what kind of systems collapsed, let alone what are those being born. From socialism to capitalism? From what kind of socialism into what kind of capitalism? There is no doubt that the change in political regime in 1989/1990 was a milestone within a revolutionary process. But it was not its beginning and even less its end.

I. *FROM WHERE?*

Socialism: Ideal and 'Actually Existing'

For socialists, the equality ideal of socialism means that no individual social group exercises systematic control over other social groups. In the positive sense this means that the members of society — directly or through their representatives — themselves organize their social life. From the economic aspect this implies production subordinate to the universal purpose of society as a whole and not to the particular purposes of some specific social group.

Many believe that the reason for the failure of the East European socialisms was the lack of democracy. Others attribute failure to the low performance of the economy. The performance of the economy, however, was also diminished through the lack of democracy. Common property and democracy are not two independent attributes. One is the economic, the other is the political aspect of society's self-organization. Common property is democracy in the economy; democracy is common property in politics. That is to say, socialism if it is to mean true social self-government, the "free society of associated producers", can only be based on democracy and public ownership.

The countries of Eastern Europe started out on the path of establishing public property and democracy, of establishing social self-organization in 1945. The expropriation of private property was,

however, followed not by the development of the self-organization of society but by a peculiar combination of social subordination and self-organization hitherto unknown in history. The development of Eastern Europe represented a specific degeneration of socialism.

Essentially, the expropriation of the surplus by private interests was terminated but production controlled by the needs of the community did not come into being. Neither the community, nor any of the social groups became the systematic beneficiary of the net product. A part of the consumption of the state and party bureaucrats did represent a socially uncontrolled expropriation of the social surplus for private purposes and to this extent this was similar to the characteristic relations of capitalism. But the extremely limited communal nature of the ownership relations of the East European economies was related basically not to the excessive consumption of bureaucrats. The lion's share of the surplus eventually flowed back to the direct producers through an irrational and inefficient mechanism of income redistribution, in the form of production subsidies, investment grants and welfare benefits in cash or in kind. (In Hungary, the social wage amounted to some 25-30 per cent of real wages, and 60-70 per cent of enterprise investments were financed by non-enterprise sources.) Far too often it flowed not to where it would have been expected on the basis of the rational utilization of resources or social needs.

The decision makers were unable (perhaps even unwilling) to expropriate the surplus products for themselves. But what the state/party bureaucracy did was to withdraw the decisions related to the use of the surplus (the process of accumulation) from the scope of control by society. It was this decision-making process that the state/party bureaucrats expropriated. A closed group of decision-makers cannot have knowledge of the entire scale of needs, not even if they want to have that knowledge. Under these conditions, the decision-making fora that could have mediated actual social requirements did not function (in fact, did not come into being in the first place), thus resources could not be allocated according to actual social needs. Even if we assume that the decision-making elite allocated resources aiming at the optimalization of the social output (and also considered subjective aspects such as equitability and fairness) the result could not be other than sub-optimal in a system which either en bloc excluded those concerned from the process of accumulation or permitted participation in it only occasionally and in the form of secret deals.

Cui prodest? According to the habitual argument, the over-centralization of the process of accumulation can be explained by the endeavours of the decision-making elite expropriating the social surplus, by their lust for power coupled with privileged consumption.

Yet the question is much more complicated than this. Ab *ovo*, the decision-making elite was not a unified bloc. Moreover, it must be admitted that during the history of actually-existing socialism, *no* coherent democratic socialist economic programme, *ever came into being*. It existed only as an abstract ideal and not as a practical alternative. The practical choice has always (at least ever since Imre Nagy's "new line" of 1953) been between the centralization of accumulation and subjecting it to control by market forces. This was still a version of socialism (insofar as the market was to be advanced without private owners or with a private sector playing only a subordinate role), but it was an alternative that bespoke a weak, incomplete, minimal socialism.¹ One can take a stand against this "minimal socialism" (for profit-oriented production) from the platform of "maximal socialism", that is, from that of the abstract theoretical requirements of social ownership, pointing out the limitations of the ideal models of market reforms. But one can also attack it in a hypocritical manner, using socialism only as a pretext, aiming in fact at preserving the decision-making powers of "degenerate socialism". Both these considerations were present in anti-market political actions in Eastern Europe. The forces taking a stand for the protection of socialism merged with those protecting their own powers and, although starting from totally opposed points of departure, they united in attacking those advocating "minimal socialism". Thus, they involuntarily collaborated in keeping the irrational accumulation system of degenerate socialism alive so long.

The permanent isolation and weakness of those advocating social ownership as against the market is indicated by the fact that practically there were no political movements, intellectual workshops or practical experiments that would have endeavoured to supercede actually-existing socialism in a socialist manner. Especially from the mid-sixties, socialists advocating public ownership pointed to the inherent limitations of the system that could be established by way of market-based reforms, with good reason. Their criticism was even more justified by the fact that the elements that would have opened the way for a capitalist type of development of the market reforms have always been present in the ideological tenets supporting the market reforms.² What is more, the advocates of market socialism received considerable intellectual support from the representatives of a capitalist restoration who, although without free political scope, nevertheless were present. Many of the present representatives of the transition to capitalism took part in the preparation of the most important decisions as government advisors, as members of party committees, as the "reform economists of the reform era". During this period, the advocates of "maximal socialism" landed on the same

platform with the group that expropriated decisions on accumulation; while the representatives of "minimal socialism" were thrown in the same camp with the latent forces of capitalism. Both proved to be ill-formed alliances.

It is obvious today that the criticism directed against minimal (market) socialism expressed by the advocates of maximal socialism (and here the author of the present study does attribute a measure of self-criticism to his own words) was frequently doctrinaire. Their point of departure was not real life, not the practically existing possibilities, but abstract theoretical requirements. Today it seems that they thereby helped conserve a greater evil than market socialism. Moreover, since what was conserved could not be upheld forever under the given economic-political constellation of forces, the defenders of maximal (democratic) socialism indirectly contributed to the political annihilation of any socialist alternative. An unbiased examination might have led to the conclusion that weak socialism is worth more than degenerate socialism or a primitive capitalism.

To be sure, weak socialism was just one of the possible outcomes of the market reforms. Irrespective of the subjective intentions of the proponents, depending on the social constellation, market reforms can give rise to, or can become combined with social movements that will lead to the restoration of private capitalism (to a social revolution). And that is precisely what has happened.

In retrospect it seems that the period during which market socialism could have evolved into a stable, non-capitalist system, lasted from the early sixties to the beginning of the seventies. This historic opportunity was missed. The economic-political bases of the system were still strong enough to manage a transition that would have obviously been concomitant with a major shock including unemployment, inflation and major income disparities. At that time the system did have sufficient political support to have made the political burdens of transition manageable. The advocates of maximal socialism partly did not realize the necessity for such a severe compromise and so they could also not see its timeliness. Those who did acknowledge this necessity were not strong enough to enforce the changes. The practical and theoretical attempts made at the correction of the system — such as the Kosygin reforms in the USSR, or the "new mechanism" in Hungary — did not lead towards the democratization of the process of accumulation, of the planning system or towards drawing ownership under true social control (maximal socialism). Nor did they result in the breaking of the power of the bureaucratic apparatus by way of the market reforms (minimal socialism). Due to the pseudo-reforms introduced, the closed circle of decision-makers was extended: certain groups were drawn in to the

decision making process. The technique of decision-making was also changed by the introduction of more flexible plan targets or, in Hungary, by mandatory plan indicators being replaced by informal contracts. But this did not amount to a really major change. Market reforms overstrain the system unless it is an economically and politically stable one. In the eyes of the decision-makers, however, the more stable the system, the less such reforms can be justified and socially supported. The art of politics lies in catching the historic moment when the need for the reforms is sufficiently pressing but the forces bursting the system are still weak. But the majority of Eastern Europe's socialist politicians were hardly adept at the art of politics, and the rest had good reason to fear the impact of the reforms on their bureaucratic power. So everything remained as it had been, while the crisis grew ever deeper.

A Revolution that Preceded the Revolution

Beginning with the mid-seventies, economic and political tensions piled up and strained society to such an extent that the urging of the market reforms led not to market socialism but to social revolution. A significant part of the socialist forces did not recognize this and, *bona fide*, assisted in or actively took a part in the preparation of the capitalist market economy.

By the mid-seventies, an acute structural crisis evolved in the economy. Keeping low efficiency enterprises employing a large labour force artificially alive undermined, to a dangerous degree, the *income-generating* capabilities of the entire economy. As a result of the deteriorated income-generating capabilities of the economy, it was less and less possible to ensure the usual growth of real incomes. The economic policy-makers tried to secure additional resources and the usual growth rate of the living standards by way of external leverage. This step seemed reasonable in view of the loans available on favourable conditions in the international money markets. It also seemed like a humane decision that the country's leadership accorded first priority to increasing living standards. *Under the conditions of the given system*, however, the external resources could not be used any more efficiently than the internal ones. (The problem was further aggravated by the fact that a significant part of the inputs of manufacturing industry came from the dollar markets, while a significant part of its exports went to the rouble market.) This foretold the development of an external liquidity crisis and the elimination of any chances of economic growth or the improvement of the standard of living for a long period of time. With the cynical support of some liberal economists, the leadership that took the living standard objectives seriously walked guilelessly into the trap leading to

the annihilation of the system.

By the end of the 1970s, the debt-trap closed on Hungary: internal resources proved to be inadequate to generate coverage of the debt service. Debt repayment was possible only through new borrowing and a net withdrawal of resources. The debt crisis provided a singular opportunity to the leading capitalist powers for asserting their strategic and political objectives in the East European region.³ They made good use of this opportunity. As a result of the cool calculation of the creditors, from the early 1980s loans were always available just to the extent that they were sufficient to avert the direct collapse of the economy, but no more.⁴ This further aggravated the domestic crisis: real incomes began to decline, the additional resources needed for restructuring were not accessible, and the political legitimization of the leadership was completely worn away.

The dependence on loans ensured that the creditors were able to penetrate economic and political decision-making. The main creditors were directly incorporated into the Hungarian decision-making structure. (The IMF's representative in Hungary was one of the leading officials of the economic Cabinet and a member of the Central Committee of the communist party). Access to loans was conditional upon strict terms which directly or indirectly included the *determination of the prices of certain products, giving certain positions to certain persons, taking political measures*. In fact, these terms and conditions contained the surrender of the system. A significant part of the dictates and agreements was reached not in a public manner, recorded by protocols, but *via* informal discussions behind closed doors, over dinner and tennis parties. Often, a pointed remark would suffice. The degree of dependence was such that it was enough for creditors to put their lips together for Hungary's leaders to dance. Those measures were in most cases cloaked in the illusion of rational economic (or political) decisions. As a result of the successful deployment of the credit-gun, all important decisions related to the economic policy and to the modification of the socio-economic regime fell under the decisive influence of the creditor banks, governments and financial centres. This was not simply one of the antecedents of the 1989-1990 revolution; this was the turning point in the failure of any kind of socialism. From this point on, even rudimentary public ownership was no more than mere illusion. From then on, the direct producers did not only have no say in the use of the surplus, they also had to give up a part of the surplus in favour of the creditors. (While the debt service between 1980 and 1989 exceeded the amount of the loans taken out, the country's debts nearly doubled.) Directly or indirectly, the creditors decided on the use of a large part of the retained surplus. Thereby the Hungarian economy — irrespective of

its form of ownership — has in fact become part of the capitalist economic order.

On the surface, the change of political power took place only in **1989-1990**. Most of those, however, who possessed direct political power in the last stage were themselves advocates of the private ownership-based market economy (although some of them called this formation "democratic socialism") and took the most important steps in preparation for the actual establishment of such a system. There were no major differences between the views of those newly in power and those losing it in **1989-1990** as far as the model of society to be achieved was concerned. The change of political power constituting the actual turning point took place gradually and continuously from the early eighties.³

In the early eighties, when the economy was desperately balancing on the brink of direct collapse, radical market reforms and (initially partial, then more and more comprehensive) democratization measures were introduced. Appealing to the obvious crisis and enjoying the effective support of the external and internal representatives of the private ownershipbased market economy, the disciples of market socialism seemed to grow in power. (Rezső Nyers was returned to power, the reform-spirit of **1968** was re-awakened.) The adjective "socialist" in the slogan "socialist market economy" lost its meaningful content: its function was only to ensure political palatability for the establishment of the market economy. Willy-nilly, the representatives of weak socialism assisted in the passing over to capitalism. By that time, the reforms did not stabilize socialism anymore. The reforms undertaken produced no economic results whatsoever, but the reform ideology (praise of the profit principle, elevating individualism to the rank of a value in itself, denial of the rational economic role of the state) devastated even the remnants of the political legitimation of the system. By the mid-eighties, the Hungarian economic crisis became irredeemable internally. Parallel with this, the political reserves of the system were fully exhausted. Democratization (governed, on the part of some, by miscalculated tactical steps and by exceedingly well calculated ones on the part of others but certainly not by some kind of awakening to the nature of "true socialism") by then provided the means for the expression and organization of mass dissatisfaction against the system. Thus, a full-scale political crisis evolved, leading to a change of political power in the spring of **1990**.

In view of the nature of the economic problems and the threat of the deployment of the credit weapon, stubborn resistance to creditors or attempts to halt the erosion of power by resolute means could have plunged the country into an economic and political catastrophe. The

helplessness, the concessions one after the other and finally the virtually voluntary handing over of power to the forces supported by the creditors was partly rooted in this state of affairs. The fact that "maximal (democratic) socialism" had no coherent economic programme, that there was no adequate model for the economic arrangements of socialism, hit back again.

In Hungary, it was argued for a while whether the crisis was of external or internal origins. The system based on the expropriation of the process of accumulation is a system encumbered with serious inefficiencies, with severe deficiencies of political democracy and of social ownership. Nevertheless, the limitations do not render economic growth, modernization or the improvement of living standards within the framework of the system impossible, as was proved by the Hungarian experience of the 1960s. The fact that the economies of Eastern Europe lagged behind the private capitalist economies, that the technological gap widened between them, are phenomena characteristic of not the entire history of the system and they are valid not in all comparisons. The historical time period of 40 or 70 years is not sufficient to evaluate the actual potential of the system. The deficiencies of the system of accumulation, the constraints on its efficiency do not provide sufficient explanation for the disruption of the Hungarian (or East European) system. The failure of the system can only be understood if the inherent limitations of the system and the external and internal economic, political and strategic conditions and struggles are jointly taken into consideration. It is obvious today that it was the joint effect of the irrational system of accumulation and the financial-economic dependence on the West continuously increasing from the mid-seventies that led to the failure of socialism in Hungary. The internal system of accumulation wasted resources by using them suboptimally. International capital, on the other hand, withdrew significant resources from the economy, making good use of the debt burden resulting from the country's financial dependence. It was able to subordinate economic (and, to some extent, political) decision-making to its own interests. In the last analysis, international capital strangled the system of degenerate socialism by exploiting its economic power. ■

II. WHERE TO?

With the change in political regime in 1989-1990, the first stage of a long social revolution came to an end.' The nature of political power did change, but not yet the nature of society. The transformation of the entire institutional and ideological structure of the state, of the social class structure, of the operational system of production and the

economy, the relations of production and of the norms of human co-existence is just beginning.

Irrespective of the change of regime, the economy is in a position that it can remain operational only at the cost of extremely severe social sacrifices and the fundamental support of the **creditors**.⁸ Struggles will shape the character of the new society about to be born: whether it will be *democratic or dictatorial*. The same struggles will also determine whether Hungarian capitalism will be one of stagnation, collapse or of modernization; whether society will tread the path of social cooperation or extreme antagonisms. The outcome is open. Right now, the question is not whether *ultimately* and in principle private ownership and democracy can be reconciled. Right now the question is whether it is possible to get to a system based on private ownership from one based on state ownership under democratic political conditions; whether *this* historic endeavour can be accomplished within the framework of democracy.

The historical experiences available are not too promising: in general, capitalism was born under dictatorships and the example of the newly industrialized countries — South Korea, Chile — confirm this. In addition, Eastern Europe only has had short spells of democracy. Many refer to the example of post-Franco Spain, but that can hardly be a valid comparison, as there was no need of the most painful social surgery, namely, the establishment of a new class of owners. Is it possible to do things differently here and now? Perhaps it does make a difference to the world and particularly to Western Europe that Eastern Europe houses political democracy rather than dictatorship or unstable regimes.

But even this may be insufficient if the historic programme, the establishment of capitalism itself produces such social conflicts and shocks that the democratic institutions cannot manage. The institutional system of democracy is threatened not by the former ruling elite that lost its power, nor by the unfavourably affected working class. Democracy is threatened by capitalism itself. The social burdens concomitant with the transition are heavy: the elevation of certain strata takes place at the expense of others, at the cost of the absolute impoverishment of many. This is exacerbated by the existing economic crisis and by political passions. It may well be that at the end of the twentieth century, in Eastern Europe, capitalism can only be created through dictatorial means. Irrespective of whether or not the leading politicians of the present Government have an affinity to dictatorship, they may be forced into a dictatorial regime. If they are unwilling to succumb to this, the de-stabilized conditions can easily elevate others, more willing, to replace them.

New Administration, New Ideology

The present Government is justified in talking about a democratic change in power and of new state power of democratic origins. From the point of view of breaking the monopoly of economic and political decision-making, the *institutional and legal framework* at least does not contain institutions or rules that would impede the social control of the state. Indeed, its main elements had already been established through the self-reforming attempts of actually-existing socialism. There is a Government elected by universal suffrage by secret ballot responsible to Parliament, there is a Constitutional Court to guarantee constitutionality, there is a Supreme Audit Office, there is a political philosophy attributing high value to democracy, etc. The laws limiting the freedom of citizens, prohibiting the exercise of basic freedoms, were declared null and void. These are highly valuable, great achievements of the most recent period. Without all of these, a democratic state cannot exist.

History, however, amply shows examples of how popular movements based on the free expression of will still created dictatorial systems, and/or how the democratic institutions were turned into the instruments of narrow group interests. Democracy is a *practice* of politics aimed at bringing about a synthesis among social groups with different social interests and at preventing the exclusive power of any social group. From this point of view, Hungarian democracy is very fragile. The institutional system and the actual practice of politics are not synchronized. Hungarian society leads a double life: forces of democracy and anti-democracy are fighting one another. The result, for the time being, is a peculiar mixture of democratic and anti-democratic relations.

Life has never been grey or drab in Hungary; now it has become strikingly colourful. Innumerable new organizations, clubs, publications, public fora, all based on voluntary activity, have come into being. The scope of personal choice has greatly extended as far as political erudition and self-expression are concerned. These are, however, engulfed by a stream of petty accusations, hatred and lack of cooperation, covering everything from high politics to everyday life. The difference between the economic and political philosophies of the parliamentary parties is not so great as to justify the degree of animosity that has evolved between them. (*Every* parliamentary party shares the objective of the implementation of a private **ownership**-based market economy. Every parliamentary party advocates democracy and urges that the victims of the social changes be supported.) In addition to the lack of democratic traditions, this is also due to the fact that a number of new organizations would like to appropriate democratic institutions and to use them for the exclusion

of minorities, of those having a different opinion. It is possible that what will emerge from this discordance will be an unstable "democracy" unable to come to a consensus or cooperate, governed by narrow party interests, a "Balkan Hungary" of petty reckoning and hatred. The democratic institutions are already frequently proving to be not the guarantees, but the instruments and fora of social division. Some of these institutions — particularly some of the institutions of economic democracy — function only in part; many important decisions are not even submitted to the democratic institutions and are made without granting a hearing to those concerned.

For the partisans of the old regime and even for those who used to enjoy higher positions in the past regime, the new system already presents certain dictatorial traits. They are being driven out of public life and their jobs through the means of awakening animosities, intimidation, denunciation, internal "cold war". Parallel with this, a wide range of senior and junior leading positions can be filled only under the condition of subscribing to a certain mentality — that of a "Christian-Hungarian" market economy — but mainly under that of loyalty to the new political power. It was in this spirit that the transformation of the direct state administration and the accelerated replacement of the entire managing and executive staff of economic and social institutions began.

Since the spring of 1990, the development of the executive apparatus of the new political power, the actual transformation of state administration and the replacement of the old staff with adherents of its own has been going on at a fast rate. These replacements have already reached the lower levels of the central administration. The new government did not wish to collaborate with a significant part of the old apparatus. Yet it did not have an expert staff of its own, having received strikingly little support from professionals, especially those with an expertise in state administration. Consequently, many people have been elevated to high positions in the civil service from total obscurity, without any professional experience. In 1948, it was workers without expertise who, on the basis of the principle of loyalty to the communist party, were put into executive positions in the economy, the army, the police forces and state administration. Now, in 1990, the same thing is happening, except the difference is that the high school teacher is made deputy to the Minister of Education, or the university lecturer is made deputy to the Minister of Defence.

The picture of the "squirearchic" Hungary of the past also emerges from the staff replacements so far carried out. A characteristic feature of these replacements is the exceedingly great role played by

political considerations and personal relationships at the expense of professional considerations. Staff replacements executed for political and personal reasons by far exceed the extent and range needed for the establishment of the "necessary loyalty": what is happening is the conquest of the state at the expense of professional expertise. Traditional relations of personal dependence, patronage, mutual obligations and favours, elements of **personal/political** revenge can all be found behind the personnel changes made in the course of the transformation of both high and lower level civil service. It seems there is a petty, base contest going on even within the ruling parties for lucrative posts, for high positions in government, for giving relatives and friends fat jobs. **Consequently**, the professional standard of the civil service and its democratic character, its willingness to engage in dialogue with society, show a deterioration in comparison to the previous two decades.

The present regime defines itself as a right-of-centre system. Democracy, patriotic sentiments, Christianity, individual freedom and charity are the positive values to which the predominant ideology refers. The negative values include the rejection of dictatorship and of the idea and practice of "collectivity". The actual ideology permeating everyday life is a conservative nationalism mixed with anti-communism. In a number of its practical manifestations, this nationalism is of the culturally inward-looking kind, paranoid and arrogant. There are striking tendencies of racism and hatred of foreigners.

National problems are elevated above virtually all other social problems, or rather **virtually** all social problems appear in the guise of a national issue. Amidst the re-emerging prejudice against ethnic minorities, the national interests of Hungarians keep being presented as suffering from the discrimination of other nations: Hungarians belonging to the European civilization are allegedly threatened by non-Hungarians in and outside the country. [■] Stalin's fortress under siege is replaced by the thesis of the nation under siege. This nationalism is **conservative** not only because it increases animosity between nations, but also because of its domestic social role. Just as in Stalin's case, the threat from outside provides a basis of reference for the implementation of domestic political endeavours. Threatened Hungarians will have to defend themselves. And the best way to defend themselves is to rally round the national programme of the Government.

Nationalism is the main force that keeps the power-bloc together and links it to society. This ideology has credibility and actual support. Due to the undervaluation of national consideration earlier amidst a pseudo-internationalism, there are significant masses

backing the Government's conservative nationalism. Yet this nationalism is also a general social straitjacket, containing within it the germs of a nation-based totalitarianism. The Government is the representative of the national interests hence whoever stands up for national interests will also have to stand up for the Government. That is how the programme of capitalism becomes a national cause, the programme of all Hungarians and the voluntary acceptance of the burdens concomitant with capitalism becomes a positive sacrifice made in the interest of the nation. The slogan of **1956** is valid in a twofold sense: "Whoever is Hungarian will side with us." In practice, however, the excluding sense of the slogan is also present: those who do not side with us are not Hungarians. Those who are not for the ruling party, are not true Hungarians. Every political action taken against the power-bloc, be that an article in a newspaper or a manifestation of the protection of workers' interests, is interpreted as an action against the nation, against society. Thus it was possible in October **1990** for political leaders to sing the National Anthem waving the national tricolour while condemning the demonstration of the taxi-drivers protesting the petrol price increases as a crime against the nation.

This nationalism, however, has still not addressed the gravest real problems of Hungarian sovereignty. Sometimes it seems that the politicians of the Government are more concerned about having the name of a street inscribed in Hungarian in the **Hungarian**-populated sectors of Slovakia than with handling the problems arising from the Hungarian economy being at the mercy of external forces. The Government has no clear-cut ideas on how to restore the country's economic sovereignty so fatally reduced due to the debt crisis. Nor, apart from the declaration of a few general principles, can any one see what the Government's intentions are in relation to foreign capital investment. It is simply not known in what areas, to what extent and at what terms the Government would encourage foreign ownership in Hungary.

The Revolution of the Social Structure

In the course of the past few years, J. K. Galbraith has warned many times that if Eastern Europe was to re-create the conditions of classical capitalism at the end of the twentieth century, it will be bitterly disappointed. On the other hand, Janos Kornai says that the only way to grow into modern capitalism is to do that in an organic way, that is, the classical stage of capitalism cannot be avoided. Both are right.

The new regime implies a new social class structure. The political annihilation of the old proprietors of political power as a power,

is an accomplished fact. There is, however, no new ruling class born. This is a highly peculiar, transitory state of affairs in which *there is a capitalist state (or, at least, a state that proclaims the restoration of capitalism as its political programme), but there is no capitalist class*. Within the revolution of state structure and of consciousness, a political superstructure is evolving which has no supporting beams within the structure of society. It follows that this political power is quite shaky. It is only now, after the event, that the socio-structural revolution is beginning that will lead to the evolution of a stable capitalist class. It is now that it is to be determined, who shall partake of the new ruling class — and this can also stabilize political power.

The "capitalist class" is of course a generalization: it is the common denominator of certain competing social groups. The opportunity to become an owner on a small scale is more or less given, but the economic and financial conditions for the fast evolution of private ownership on a large scale are missing. To this extent, Hungarian political power is presumably going to rely on a petit bourgeois capitalist class in the foreseeable future. Even if the Government's plans are realized and within 3 years the share of state-held assets will be reduced to below 50% of the total from the present 90%, it is quite likely that the largest enterprises (making the highest losses) will continue to be state-owned for a long time.

As a result of the Government's economic policy opening the gates of private capitalization, many of the present small-scale entrepreneurs and wage earners will turn into owners on small or even medium scale. The personal savings needed for this are available and they can be supplemented by preferential loans provided by the Government. At the level of the present small owners, primitive accumulation of capital is taking place according to the classic rules: making large fortunes out of small ones, using all possible means. Economic policy and economic ideology place the emphasis on removing the barriers in the way of the free development of capital, rather than on institutionalized agreements to secure a cooperative relationship between capital and labour. One worker turned (small) factory owner expressed this with some exaggeration by saying in a newspaper interview that there is no need for a trade union, that the best trade union is the market itself. There are no moral constraints or unwritten rules limiting the endeavour to become rich; all means are permitted. This is happening within a culture in which written rules, contractual agreements have not had much of a weight or social value in the past; thus finding loopholes and evasion of the law have been all the more esteemed. Some of the luckiest, most aggressive new entrepreneurs could soon become owners on a large scale. Nevertheless,

owing to the limitations of the financial capacity of this stratum, they cannot become the owners of the concentrated capital assets of the state within the foreseeable future. The question is not who the ice parlour on the corner belongs to, but who the dairy plant belongs to. To buy the dairy plant and the bauxite mine, the savings of the past are not enough, not even with domestic and foreign government loans. There are individual savings of several tens of billion forints against the state assets valued at several thousand billion forints.¹⁰

The formation of the class of large-scale capitalists in Eastern Europe will have to differ from the classic manner, primarily because large capital does not need to be created: accumulated capital is there, in a materialized form, held by the state. ***There is capital, but there is no capitalist class to go with it.*** The previous state had, more or less successfully, accomplished the task of the original accumulation of capital. The capitalist class will come into being by simply transferring the assets of the state into private hands. In this sense, there is neither original accumulation of capital, nor organic capitalist development. The historical situation does, however, show some traits of kinship with that of the classical capitalism to the extent that privatization at the end of the twentieth century leads to the coming into being of a new ruling class the same way as industrialization produced a new ruling class in the nineteenth century. The social role of the original accumulation of capital was not merely to create the physical assets, but also to select the ruling elite possessing economic power. At the time of classical capitalism, this went hand in hand with the creation of new bases of production. This will be omitted this time. Yet, the selection of a new ruling group will be no less dramatic and shocking than the one two hundred years ago. The conflicts could be particularly great because no clear-cut archetypes, social outlines of the new capitalist class exist within the inherited class structure of society. The merchant capitalists and manufacturers of the period of the West European original capital accumulation, or the land owners turning capitalists of Central Eastern Europe are missing here. ***Based on their accumulated wealth, no social group is ab ovo predestined to constitute the new capitalist class.***

The epochal question today is what social groups and on what basis will have access to the presently accumulated state assets. Two points can be stated right at the outset. Firstly, a social fight is going to ensue for capitalization and for social elevation. Secondly, ***capitalism is being formed in such a manner that the state is urgently "founding" its capitalist class*** because, in view of the given state of the social structure and the economic power relations, this issue cannot be decided as a result of the "free economic selection of the fittest". Capitalization cannot wait until the small capitals that already exist or

are being born are moulded into a capitalist class in a fair economic competition according to the rules of the market. Or, to make use of a **Marxian** paraphrase turned upside down, if we were to postpone the privatization of the large scale enterprises until the amount needed is accumulated as a result of the efforts of individual small entrepreneurs, Hungary would be characterized by the predominance of the state sector even in the first decades of the next millennium.

A class structure adequate to the new political system and concentrated economic power can be established only in an artificial manner, directed from above and from outside the economy. The representatives of the new political power speedily tried to find the positive (and negative) moral and other criteria on the basis of which certain individuals would be more entitled to have access to the state assets than others." On the whole, however, the behaviour of the state in assisting the creation of a new capitalist class is not unambiguous and predictable. The groups that could be considered as in some way eligible to constitute the new capitalist class are not in fact eligible for political reasons; other groups, on the other hand, do not have a chance. It is the managers of state enterprises that stand in the focus of the public debates on capitalization.

The Government elected in the spring of **1990** came into power in an extremely difficult economic situation, but with a relatively strong political hinterland. In such a situation, economic rationality and the considerations related to upholding the operationality of the economy should urge the Government to co-operate with the managerial stratum. Their experience, their command of the technical skills required in large-scale undertakings, their knowledge of the market, of their foreign and domestic partners all provide strong grounds for this. Western investors have also learnt to appreciate the qualities of the Hungarian managers. The possession of business information, the knowledge of new business opportunities arising from existing business contacts, constitute an intangible capital that, although not appearing as purchasing power expressed in money terms, renders it possible that the existing managerial stratum could become the most successful capitalist class. There are many examples of managers who, making use of market freedom and the somewhat chaotic regulations, have played the assets of the state enterprise they managed into their own hands, well below their market value.

Trusting the favourable political climate in the early summer of **1990**, the new government, pushed by its own right-wing, started off a campaign against the "communist managers" with the unconcealed intention to replace the managers with those who would be more in line with the interests of the new elite. As soon as this replacement is carried out, the prevention of the capitalization of the managers

would not be expedient from the point of view of the powers that be. The political rationalization given to questioning the legitimacy of the managers was the consistent reckoning with the old regime. It was argued that the change of system could not be complete while the appointees of the old regime were still in place. (It was not taken into account that in the course of the past two decades, political considerations lost most of their validity in the selection of enterprise managers. Since 1985, directors in most enterprises have been elected by the so-called enterprise councils consisting of the representatives of the employees and of the managers. External actors had little formal or practical influence on determining the person of the executive.) According to the moderate wording of Prime Minister **Antall**, the Government seeks to have partners loyal to the new political power in the leading economic posts. To achieve this, the Government ordered that all enterprise managers be reviewed, that is, that they be subjected to a kind of political vote of confidence.

Managers were replaced first in those enterprises where they had during the old regime been appointed by the central government. (These are the largest undertakings, playing a key role in the economy.) The general experience of these centrally initiated replacements was that it was not the "communist managers" that were replaced by entrepreneur-technocrats but the other way round: semi-managers were frequently replaced by non-managers. The political dismissal of the managers inherited from the old regime is going on, but the new power has no technocrats capable of assuming management assignments. Consequently, many of the new enterprise leaders have little or no business experience or management skills. It seems that foreign capital is coming to view the ensuing insecurity and occasional fall in standards in an unfavourable way.¹²

The Government's endeavours to displace the old managers did not get very far in any case. Enterprise councils refused to confirm only some 25% of the old directors in their office. The general political atmosphere, local political *vendettas*, personal ambitions, and motives of individual revenge might have suggested the radical replacement of the old managers. The system of review through the enterprise councils, however, also gave a chance to an approach starting out from the actual economic-professional realities, as well as allowed those enterprise councils that had been the tools of the managers in the past to vote for continuity. The moderates in the ruling majority obviously reckoned with this possibility, too. Ultimately, the forces of destabilization were not strong enough to turn the majority of the enterprise councils against the managers.

The Government must now either make peace with the managers of the old regime and resign itself to the fact that they will constitute a

part of the new capitalist class; or, by continuing to press for the replacement of the old managers, run the risk of considerable economic and political instability. The scandals around the forced dismissals, the demonstrations of sympathy for the dismissed directors, the resignation of many senior managers out of solidarity for the dismissed director can lead to the disintegration of the economy as much as the local campaigns and strikes against the "communist director". Only peace between the Government and the managerial stratum can give a chance for relative social peace and avoiding political-economic chaos. Some of the political forces in power may be inclined to make peace, having seen the results of the local elections and of the unsuccessful manager replacement campaign.

Yet the political risks of making peace are considerable. With inflation almost getting out of hand, collapsing traditional markets, a shrinking domestic market due to falling purchasing power, the Government will be forced to take restrictive measures that might make potential investors uncertain, might frighten off those who want to go into business. The Government has little chance of solving the crisis without external help, even with the most radical measures. If, in addition to all this, the Government were to realize that it has to rely on the experts of the past regime if it wants the economy to function, the small holders, the petite bourgeoisie who helped the Government into power in the hope of a speedily completed system-change and becoming rich fast, will certainly be disappointed because of the "compromises" of the Government. And this might open the way to authoritarian solutions permitting much less social resistance to the decisions of the Government. (The taxi-drivers blockade in October can be evaluated as a manifestation of this disappointment.) Political forces highly inclined towards such solutions are already present in Hungary. The extreme anti-communism of some could easily turn into the basis of a "consistent and all embracing change of systems", i.e.: dictatorship. The prolongation and eventual worsening of the economic crisis could give further impetus to those standing up against the moderates who dare to "enter into collusion with the communists" and increase the chances of the emergence of a "legitimate" dictatorship.

Who Pays the Bill?

The state of the economy has deteriorated since the change in power, with dramatically increasing unemployment and inflation getting out of hand. The prospects opened up for individuals by the developing market economy are counterbalanced by the significant worsening in the position of wage earners. Still, small ventures are sprouting up

like mushrooms and these give a chance of speedy financial rise to many wage-earners as well. The question of *individual* life prospects is formulated by many as follows: setting up in business implies the possibility of rising socially and financially, while remaining a worker means uncertainty, deterioration of their present position and, for some social strata, actual impoverishment. In a society where the split between the well-off and the poor is widening by the hour, the question of who will be a winner and who a loser pervades everything. The experiences of setting up in business also reveal that it is not merely a matter of free choice. The myth of the "worker-capitalism" of tens of thousands of flourishing small ventures entered by all who wish to according to their free volition, is beginning to be shattered. The free competition of performance capabilities is made illusory precisely by the unequal access to capital goods. As an entrepreneurial stratum is in the process of being established, a new wall, made up of the bricks of unequal possession of capital assets, is also being built around it. Only a few, and only under certain conditions, will soon be able to penetrate that wall. The self-sustaining, exclusive nature of the entrepreneurial sphere implies that the vast majority of the wage earners will be condemned to remaining wage earners.

In the present situation, the upcoming entrepreneurs can improve their own position only at the expense of the wage-earners. The economic crisis in any case implies a general reduction of real wages and a severe weakening of job security; the social transition, however, causes a deterioration in the position of the wage earners irrespective of the economic crisis. The creation of the capitalist class leads to the re-distribution of the current national income away from the **wage**-earners and to the weakening and, in certain cases, the closing down of the welfare institutions. A part of the social surplus product appearing in the form of the tax revenues of the state is used to support private enterprise. In this way, the social costs of the creation of the capitalist class is paid for through the reduced consumption of the direct producers. The reduction of real wages is not yet counter-balanced by the output increased through the better utilization of privatized state assets that could offset the disadvantageous effects.

A few illustrative examples could throw some light on the above statements. There are two conflicting economic policy priorities: in the economic crisis monetary policy should, in general, be restrictive; but it should be expansive where privatization is concerned. It follows that monetary policy has to restrict especially the outflow of money in the other spheres, particularly in the area of wage increases. The credit lines set aside for privatization reduce the amount of credit available for other purposes (thus also consumption). With a given average

interest rate level, the preferential interest charged on the privatization loans implies higher interests on all other loans.

The change in ownership does not necessarily go with increased output and improved efficiency. Therefore the direct impact of the tax concessions promised and given in the interests of privatization is a loss of tax revenue. This, in turn, leads to necessary cuts in budgetary expenditures which results in the increased devaluation of the social benefits and the termination of certain welfare expenditures. It is not just that the real value of the welfare expenditures is decreasing; they also give preferences to different groups, in line with the predominant political values. Referring to the uncontrollably high expenditures of social security and to the intention of doing away with the privileges of the past regime, the Government terminated the supplementary pension granted to the families of the one-time "political martyrs". (Most of the beneficiaries had been persecuted by fascism or were widows of poets and writers of national fame abducted to the concentration camps.) Yet at the same time, the Hungarian POWs of World War II have been promised a supplementary pension as of 1991!

It is mainly the wage earners who are the most defenceless against inflation, generated in part also by privatization. Their defencelessness is also related to the fact that the conditions provided for the expansion of capital include not only a direct re-distribution of incomes, but also the weakening of the institutions of workers' representation. The Government has, in fact, driven the representative organizations of the workers out of macro-level decision making; it operates the institutions of interest reconciliation only to prevent acute crises and has reduced consultations to a minimum in comparison with the previous period. The formal decision has been made to terminate the enterprise councils. This extinguishes a potential local institution of social partnership.

For most wage-earners, there is no alternative to a private ownership-based market economy. But workers have no organized political representation that would even be able to ensure at least that the burdens concomitant with capitalization be reduced to a minimum. The working class is lonely: it has lost its confidence in socialism, which is not surprising in view of the deficiencies of degenerate socialism, while all it gets from the new system is difficulties. Who can they trust? Perhaps they can hope that sooner or later, through spontaneous protest movements arising with the deteriorating living conditions, they will be able to organize themselves, to set up their own organizations and to outline a more cooperative system that could be an alternative to both capitalism and its Christian-nationalist, Hungarian version.

NOTES

1. Weak-incomplete-minimal socialism means that the immanent essence of socialism is unable to unfold. The indigenous social constraints resulting from the system of accumulation bar the way to social ownership and democracy. Unless we share the **(neo)classical** paradigm, according to which the free assertion of the particular interests is a precondition of the assertion of the public interest, the subordination of the social production process to particular, **micro-economic** interests (irrespective of whether particularity is embodied in self-governing communities, **powerful** company managers or individual **capitalists**) also implies the predominance and rule of the particular interest of the social groups expressing them. In social practice, this is embodied in the direct conflict between the profit objectives (and the social groups representing them) and the wage interests (and the social groups representing them), in the competition for the surplus. Through exercising the power arising from their monopoly in decision-making, the representatives of the profit objectives have a good chance of winning this fight. To this extent, weak socialism shares many of the characteristics of private **ownership-based** capitalism, even if they differ so far as the form of ownership is concerned.
2. In 1966, the party document endorsing the principles of the Hungarian economic mechanism, argued for the need for market reforms by reference to the self-regulating ability of the market. The idea of subjecting the state to real social control was not even raised in most of the tenets criticizing the role of the state.
3. A part of Hungary's debt consists of ordinary private bank-loans; another part of the debt, however, was borrowed from governments or from private institutes under strong government influence. Service on the debt rose from **\$1.9b.** in 1980 to **\$2.6b.** in 1985 to **\$3.4b.** in 1989. The trade balance showed a deficit through most of the period. As a result of the additional loans taken out to repay the interest, the total debt of the country virtually doubled in these ten years.
4. The statement made by President Bush in the summer of 1989 in Budapest, according to which the United States would aid the market reforms and the upholding of the operability of the Hungarian economy with a sum of \$25 million, seemed almost like open cynicism. Hungary's debt at the time amounted to **700-800** times the sum offered.
5. In the 21-23 years preceding the change in power in **1989/1990**, but particularly in the past 6-7 years, a great deal has happened in the establishment of the institutional and legal framework of a market economy. Hungary acceded to a number of international economic organizations and multilateral economic agreements (**e.g. GATT, IMF**); the issuing and commercial banking functions were separated and profit-oriented merchant banks were set up; the legal regulations pertaining to private economic activity based on the association of capital were enacted; the legal framework for transforming state enterprises into companies was put in place; gradually the central controllers were divested of virtually all property rights; several institutions of the capital market were set up (Stock Exchange, regulations pertaining to companies engaged in the purchase and sale of securities); the institutional system of unemployment benefits and re-training were established; a law was enacted to regulate strikes, etc.
6. The scenarios of the failure of socialism in Hungary and in Poland were very similar. If, however, the debt-trap is substituted by the arms race, the social crisis of the Soviet Union is also presented in a different light. The arms race — entered into by the Soviet Union partly due to its own decision and partly as a result of the long term political-economic strategy of Western powers — played

the same kind of major net resource withdrawing role as the debt crisis. Consequently, growth slowed down, the resources put towards the arms build-up proved to be too much of a burden in this inefficient, wasteful system and finally, at the time of the neutron bomb and Star Wars, the arms build-up could only be financed at the cost of a severe reduction of living standards. From then on, the unfolding of a full-scale political crisis was only a matter of time.

7. Since the elections in the spring of **1990**, Hungary has been ruled by a three-party coalition government. (The most powerful party in the coalition is the Hungarian Democratic Forum, the other two participants are the Smallholders Party and the Christian Democratic Peoples' Party.) The programme of the coalition parties focuses on political democracy and on the so-called "social market economy" based on private ownership. The private ownership-based market economy has no alternative for any of the organized political forces of significance. The electoral and social base of the governing coalition consists of the already existing entrepreneurs and small-scale manufacturers and the social groups aspiring or responsive to such values. It seems most of their votes came from these circles and from rural Hungary, especially from the rural intelligentsia representing traditional values (national identity, Christian values). Accordingly, the Government programme published in the summer of **1990** reckoned with several tens of thousand new small entrepreneurs by the end of the year. A career as a small entrepreneur, and the value system of the market economy, are popular among the workers, too. Without a large number of votes from the working class, the present coalition could not have come into power.
8. With the given forces of production and irrespective of the nature of the system of accumulation, the export revenues that could at least prevent a further increase in the national debt cannot be produced. This circumstance is a major constraint on the functioning of the market economy about to be born. The conditions whereby the increase in national debt could at all be stopped could only be created through foreign capital investments of truly radical magnitudes. Lacking this, we can envisage the following scenarios: the new Hungarian market economy is going to writhe under the weight of the debt burden just like the previous system in the past fifteen years; the Government will be forced to re-schedule and the creditors will show understanding; the creditors will cancel some of Hungary's debt.
9. In the summer of **1990**, a one-time officer of the Horthy army (under the communist regime he had been reduced in his rank, but recently re-instated as General) said in Parliament — with the silent approval of government politicians — that the Hungarian army with its voluntary (sic!) war against the Soviet Union in World War II, was in fact defending the country and European civilization against the spreading of Bolshevism.
A prominent representative of the leading party of the governing coalition wrote in an article that liberal Jewish intellectuals in Hungary are attempting to intellectually assimilate the nine-and-a-half million Hungarians.
10. According to **1987** data, the household saving deposits (including the amounts saved for housing purposes, durable consumer goods, illness and old age) of the country amount to HUF **300** billion. The reduction of real incomes, the negative real interest rate and the inflation climbing higher year after year certainly do not encourage individual savings. The amount actually available for investment is only a fraction even of this.
11. One of the governing parties came to be part of the coalition Government with an election programme stating that in return for the injustice suffered, the one-time smallholders and their heirs should be given back the lands that were taken away from them since **1947** without compensation.
12. Recently, the Government appointed a performing artist to replace the director

(who used to be a member of the Communist Party and, according to some, was of Jewish origin) of a flourishing, profitable enterprise of international reputation producing and distributing art products. The most outstanding representatives of the artistic community protested against the unfounded, autocratic decision. Within a week, a leading multinational company that was about to set up a joint venture with the Hungarian enterprise in question with an investment of \$15 million, rescinded the contract because of the change in management.