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The origins of neoliberalism in late 'socialist' Hungary: The case of the Financial Research Institute and 'Turnabout and Reform'

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Abstract

This article contributes to ongoing debates in the transformatology literature, as well as the wider literature on the global neoliberal revolution, on the origins of neoliberalism in Soviet-style economies. Within these debates, the transition to a (free) market economy and liberal democracy in Hungary and elsewhere in the former Soviet bloc has commonly been perceived as an *exogenous* process, dating to the *annus mirabilis* of 1989. This article challenges this consensus. Through a case study of the Financial Research Institute (*Pénzügykutatási Intézet*), the official research institute of the Ministry of Finance, and a programme of radical economic reform, known as 'Turnabout and Reform' (*Fordulat és Reform*), published in 1987 by a group of experts at the institute, the article demonstrates that in the case of Hungary, neoliberalism was not simply an 'imported project', which arrived 'from the West' on the eve of the formal transition in 1989–1990. Rather, it is argued that it emerged organically in Hungarian society in the 1980s, as a response by domestic economic and political elites to the deepening crisis of the Kádár regime. Hence, the essential aim of the 'neoliberal turn' was to reconfigure the Hungarian economy in line with the exigencies of the capitalist world economy, while ensuring that the political transition went as smoothly as possible. As such, while obviously a repudiation of past policy, policymakers in Budapest pursued the similar objectives as central planners under 'actually existing socialism'.

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Introduction

The last three decades have seen the ascendancy of neoliberal ideology and policy across the world. While the geographical spread of neoliberalism – here conceived as an economic doctrine, a political project of the ruling classes around the world *and* the new *modus operandi* of the capitalist mode of production (Dardot and Laval, 2013; 'What was Neoliberalism?' in Davidson et al., 2010: 1–92; Ferguson, 2010; Harvey, 2007; 'Postface' in Mirowski and Plehwe, 2009: 417–455; Mudge, 2008; Peck et al., 2012, 2012; Saad-Filho and Johnston, 2005; Turner, 2008) – has been highly *variegated*, nowhere did it sweep aside competing paradigms so quickly and radically as in the former 'socialist' economies of Central and Eastern Europe (CEE). As one of the frontrunners of the transition to the market in the region, Hungary embraced neoliberal policies of liberalisation, privatisation and macroeconomic stabilisation in the late 1980s and early 1990s. Other countries in the region soon followed suit, and no matter whether their economic policies were located on the more 'radical' or more 'gradual' end of the reform spectrum, altogether the CEE transformations constituted what Murrell (1996) has described as 'the most dramatic episode of liberalization in economic history' (p. 31).

Yet, arguably one of the most puzzling questions of Hungary's 'double transformation'[1] for critical scholars and political activists is *why* policymakers in Budapest decided to abandon any experiments with 'market socialism' or a 'Third Way', favouring neoliberal restructuring instead? After all, they could have built on a strong tradition of reformist thinking, which was almost unique to the region (apart from Poland and Yugoslavia) and had inspired previous market reforms, contributing to Hungary's infamous epithet among Cold War commentators of being 'the happiest barrack in the East'. Moreover, neoliberal economic policies did not necessarily fit easily with the social bases and intellectual traditions of the political parties that were vying for power during the transition, meaning that, once in office, any government would have to have been willing to implement neoliberal reforms against the interests of its own electorate.

In order to address this question, this article argues that the development of reform economics needs to be understood in relation to Hungary's position in the capitalist world economy and the international state system between 1945 and 1989. To provide this context, the article draws on a broad literature, from a variety of theoretical approaches. The development of capitalism in the 20th century and the epistemic community in which dominant ideas about how to best operate it, the ascendancy of neoliberalism in international policymaking circles the 1970s and their influence on processes of globalisation, economic crises and restructuring, including the 'post-communist' transitions in the former Soviet bloc have been widely discussed (Aligică and Evans, 2009; Babb, 2004; Bockman, 2011; Bockman and Eyal, 2002; Drahokoupil, 2009; Fourcade-Gourinchas and Babb, 2002; Gagyi, 2015; Gowan, 1999; Mirowski and Plehwe, 2009;

Seleny, 2006; Shields, 2012; Wagener, 1998). As for the economic, political and social history of 'actually existing socialism' in Hungary, excellent studies have been provided by Berend and Ránki (1985), Pittaway (2014) and Swain (1992). In addition to this literature, this article also draws on key reform proposals of the Hungarian transition,[2] as well as published and self-made interviews with Hungarian reformers.[3]

Against this background, the article sets out to show that the origins of Hungary's neoliberal transformation *preceded* the formal transition to a market economy and parliamentary democracy in 1989–1990 and need to be understood as part of a wider restructuring of the capitalist world economy from the early 1970s onwards. As such, neoliberal ideas and practices were not simply imported 'from the West' *after* the 'regime change' but emerged 'organically' in Hungarian society in the 1980s, as a response by domestic political and economic elites to the deepening crisis of the Kádár regime. The essential aim of the 'neoliberal turn' was thus to improve conditions for capital accumulation, while ensuring that the political transition went as 'smoothly' as possible. In this sense, while obviously a repudiation of past policy (on a politico-ideological level), policymakers in Budapest pursued the similar objectives as central planners under 'actually existing socialism' (on a socio-economic level).

This article is divided into four sections. The first section outlines the theoretical framework that informs the argument. The second section provides a historically grounded overview of state capitalism in Hungary, focusing on the contradictions of successive waves of market reform in nominally 'socialist' Hungary. Against this background, the third section shows how mounting external pressures (geopolitical and economic competition with the West, indebtedness and budget imbalances) and increasing disbelief in the Soviet model within the ruling Hungarian Socialist Workers' Party[4] (HSWP; *Magyar Szocialista Munkáspárt* (MSZMP)) in the 1980s opened up a space in which 'proto-neoliberal' (Peck and Tickell, 2002: 384) ideas could emerge 'organically' in Hungary. As I demonstrate, a group of young, 'radical reform economists', well versed in neoclassical economics[5] and strategically located in the influential Financial Research Institute (FRI), became the conscious bearers of (neoliberal) capitalism in Hungary prior to 1989. Finally, the fourth section looks at how researchers at the FRI interpreted Hungary's deepening crisis and what policy proposals they offered to overcome it, by analysing in detail the contents of 'Turnabout and Reform', a document originally published in 1987 as a supplement to the samizdat journal *Medvetán*c (Antal et al., 1987) and widely acknowledged as the *Absichterklärung* of neoliberalism in Hungary (Andor, 2010: 160–161; Berend, 1990; Ripp, 2006: 27–30; Swain, 1992; Tökés, 1996).

Rethinking neoliberal transformation in CEE from the perspective of state capitalism theory

In order to explain the neoliberal transformation in Hungary and elsewhere in CEE, this article draws on Marxian political economy, in particular the theory of state capitalism. While the term has been employed in various ways over the years in Marxist debates, including anarchist, ultra-left, and social democratic interpretations, its usage here draws upon the works of the Palestinian-born British Marxist Tony Cliff (1996).[6]

First outlined in 1948, Cliff's thesis represented a means to maintain a revolutionary Marxist praxis in the context of the ideological rigidities that characterised world politics during the Cold War. Similar to other Marxists, the crucial question facing Cliff was whether the Soviet Union (USSR) and its satellite states in Eastern Europe represented a genuine 'socialist' alternative to the 'capitalist' West. In the specific case of the People's Republics, this meant, for example, asking whether socialism could be imposed by diktat from Moscow, or whether it necessitated the independent and self-conscious action of the working classes of those countries, in taking control of the means of production and the state?

The dominant view at the time maintained that the USSR and its satellite states were 'socialist' regimes since workers, through the vanguard party, had taken control of the state; private property had formally been abolished; and production was centrally planned. This position was officially propagated by the Communist Party of the USSR and its sister parties elsewhere (and incidentally shared by liberal critics[7]), suffered from theoretical and empirical inconsistencies. Theoretically, it was based on what Marx and Engels (1982: 99) described as a 'metaphysical or juridical illusion' that gives superiority to legal forms of ownership rather than *effective* ownership of the means of production. Moreover, there was also a noticeable tension between Stalinist propaganda and the fact that the liberation of Nazi occupying forces by the Red Army was *not* initially followed by socialist revolutions in Eastern Europe (Pittaway, 2004; Swain and Swain, 1993).[8] Having said this, to its supporters, the 'orthodox communist' position offered a straightforward political strategy: the task of the international proletariat was to ally themselves with the USSR and its satellite states in their struggle against imperialism and international capitalism (on the contradictions of this policy in the 'Third World', see Davidson, 2015: 128–133).

A second position built on (and attempted to vindicate) Trotsky's (1972) theory of 'degenerated workers' state'. While highly critical of the USSR under Stalin, it argued that the USSR and its Eastern European satellites constituted workers' states, albeit 'bureaucratically deformed' ones (Conner, 1973; Mandel, 1962). Finally, a third position, questioned altogether the idea that 'socialist' revolutions had taken place in Russia and elsewhere in Eastern Europe, arguing that the aim of Bolshevik Revolution of 1917 had *not* been 'the construction of socialism' but to promote rapid industrialisation. Popularised by the influential East German dissident Rudolf Bahro (1978), this position argued that 'actually existing socialism' was characterised by inherent contradictions, which, once the initial industrialisation drive fizzled out, would lead to a strengthening of social antagonisms, between the bureaucracy and technical-economic specialists, on one hand, and specialists and workers, on the other hand. However, contrary to Marx, Lenin and Trotsky, Bahro dismissed the revolutionary potential of workers, arguing instead that the only group capable of producing *fundamental* change were the middle strata of technical-specialists. As he put it, 'New perspectives only arise if, in a more general social crisis, a fraction of the upper strata or classes – or more effectively, a new "middle class" – organises the mass of the oppressed for a reformation or revolution' (Bahro, 1978: 148–149).[9]

In contrast to the above-listed positions, Cliff argued that the Soviet bloc regimes were 'state capitalist' societies. Broadly speaking, Cliff's argument can be summarised as follows. To begin with, in contrast with the methodological nationalism that permeates orthodox accounts in the transformatology literature, Cliff argued that the development of the USSR and its satellite states in Eastern Europe cannot be understood as a *sui generis* process but needs to be considered *in relation* to the contradictory dynamics of the capitalist world economy.[10] According to Cliff, capitalism was characterised by two central features: (1) the separation of the producers from the means of production and (2) the owners of the means of production coexist with each other in relationship of systematic competition. As Marx (1980) explains in the first volume of *Capital*,

> The development of capitalist production makes it constantly necessary to keep increasing the amount of capital laid out in a given industrial undertaking, and competition makes the immanent laws of capitalist production to be felt by each individual capitalist as external, coercive laws. It compels him to keep extending his capital, so as to preserve it, and he can only extend it by means of progressive accumulation …
>
> Therefore save, save – i.e. reconvert the greatest possible portion of surplus value or surplus product into capital! Accumulation for accumulation's sake, production for production's sake! (pp. 739, 742)

However, as Cliff emphasised, capitalism had undergone significant changes since the time of Marx. As Engels (1987: 266) had already intuited in *Anti-Dühring*, one of the most conspicuous features of capitalism from the second half of the 19th century onwards was the increasing interference of the (capitalist) state onto the preserves of private capital through control or outright ownership, in the form of the nationalisation of sections of the economy. Engels' argument, later elaborated by left-wing German Social Democrats opposed to reformism in the 1890s, was that the expansion of the state into economic life could not lead to socialism but merely centralised existing capitalist relations of production. As Davidson (2015) notes, this position 'was generally accepted among the left and centre of the Second International before the First World War' (p. 124). In *Imperialism and the World Economy*, written after the outbreak of World War I, Nikolai Bukharin (1972: 157–158) predicted that as competition between enterprises in the domestic economy was increasingly being regulated by state intervention, it would increasingly shift the rivalry of competing capitals onto a 'higher level'; to competition on the world market:

> We have here the process of accelerated centralisation within the framework of the state capitalist trust, which has developed to the highest form, not of State Socialism, but of State Capitalism. By no means do we see here a new structure of production, i.e. a change in the interrelation of classes; on the contrary, we have here an increase in the potency of the power of a class that owns the means of production in quantities hitherto unheard of … It follows … that (as far as capitalism will remain its foothold) the future belongs to economic forms that are close to state capitalism.

With hindsight, Bukharin's claim turned out to be a highly accurate prediction, at least for the period up until the neoliberal turn from the 1970s onwards.

Contrary to the claims of both classical liberals and neoliberals,[11] Cliff argued that the Soviet-style state capitalism was neither 'irrational' nor 'unique' to the economies of the

Soviet bloc. In the case of the USSR, its imperatives derived from the material conditions facing the Soviet economy after the Bolshevik Revolution of 1917. In summary, Cliff's thesis was that as the revolutionary upheaval that had brought the Bolsheviks to power in 1917 subsided in the following decade (not in small part due to the failure of socialist revolution in the West, counter-revolutionary foreign occupation and bloody civil war), the Communist Party (the main owner of Russian industry), increasingly isolated and under military pressure from the West gradually came to subordinate society to the exigencies of competition with capitalist states. According to Cliff, the origins of state capitalism in the USSR coincided with the Stalinist ascendancy and the introduction of the First Five-Year Plan in 1928, which sought to elevate the Soviet economy to a 'higher level' through methods of forced collectivisation and industrialisation.[12] (As we shall see below, similarly ambitious economic plans were introduced throughout Eastern Europe following the region's incorporation into the Soviet 'sphere of interest' after the onset of the Cold War.) The policies employed by Stalin showed a striking similarity to the processes that Marx famously associated with 'primitive accumulation' of capital in Western Europe, and which relied on massive use of the coercive powers of the state – to drive peasants from their lands and expropriate their property, discipline labour into working longer hours (and thereby raising 'absolute surplus value'), conquer, enslave and rob indigenous peoples of their wealth, while ensuring that unemployed 'vagabonds' were no longer threatening society. However, while it took the bourgeoisie of Western Europe centuries to accomplish the brutal process of primitive accumulation, it was achieved within decades a couple of decades in Stalin's Russia. Yet, the outcome was the same: the producers were separated from the means of production and forced to sell their labour power in order to survive, while a layer of bureaucrats (*nomenklatura*) were transformed into a capitalist ruling class.[13]

Third, and finally, by reaffirming the continuing pertinence of class in Soviet-style societies, Cliff's theory of state capitalism provides a theoretical framework that enables us to identify the potential social forces of neoliberalism *within* these societies: those sections of the ruling bureaucracy that would benefit from a switch from state-led capitalism to a more free-market capitalism. For *if* we accept Cliff's argument that the Soviet-style regimes were state capitalist, it logically follows that the ruling bureaucracy within these regimes were, in Marx's (1991: 958) famous formulation, just as much 'personifications of accumulation', as their 'capitalist' counterparts on the other side of the Iron Curtain. 'They were', as Harman (2009) later expressed, 'members of a capitalist class, even if it was a class which *collectively* rather than individually carried through exploitation and accumulation' (p. 118). This, in turn, meant that those at the top of state capitalist economies were exposed to similar systemic pressures as state managers in the West. As Harman (1990) noted,

> those who control the state and industry [the bureaucracy] have continually to worry about how costs of production inside the country compare with the average costs in the rest of the world: that is, they have to hold down wages, keep up continual pressure to force speed on workers and aim at levels of investment that will enable the national economy to match the effort of economies elsewhere in the world. In other words, although individual enterprises may not be directly involved in competition with other enterprises, the national economy as a whole is. (p. 35)

Below, we analyse how the inherent contradictions of Soviet-style state capitalism shaped economic policy and power relations in Hungarian society during 'actually existing socialism', and, as the crisis of the Kádár regime deepened in the 1980s, opened up a space in which domestic social forces could promote proto-neoliberal ideas and practices.

State capitalism and the antinomies of reform in 'socialist' Hungary

One of the most conspicuous features of capitalism in the 20th century was the growing influence of the state in the national economy. This trend became accentuated as capitalism expanded in the decades after World War II and was a key contributing factor behind what has become known as 'the golden age of capitalism' between the late 1940s and the early 1970s (Dunn, 2009: 132–153; Harman, 2009: 161–190). In Hungary, the role of the state in the economy (already important during the interwar years) intensified from 1948 onwards, as the Rákosi regime employed Stalinist methods of forced centralisation and industrialisation in order to boost economic growth and consolidate its fragile grip on power (Berend and Ránki, 1985). As part of this process, the first Five-Year Plan was introduced in 1949, with the aim of transforming Hungary from an agrarian economy to 'a country of iron, steel and machines' (Gerő, 1952). This goal, while seemingly 'irrational' – for example, Hungary had no iron ore reserves whatsoever – reflected the country's position as a Soviet satellite state, with economic development subordinated to the demands of the USSR in a context of intensified geopolitical and economic competition between East and West. In line with the Soviet model, planning was centralised in the hands of the newly founded National Planning Office (*Országos Tervhivatal*) and became compulsory and comprehensive (for a detailed description, see Swain, 1992: 53–84). Meanwhile, the process of bringing key sectors of the economy, such as banking and finance, heavy industry and manufacturing, under state ownership was intensified and essentially completed by the end of 1949, when all foreign-owned firms, domestic enterprises with >10 workers and printing and electrical factories were nationalised. Foreign trade also became a state monopoly and underwent a radical eastward shift in subsequent years, with the USSR replacing Germany as Hungary's largest trading partner.[14] In terms of the theoretical framework developed in the previous section, this was a period in which a centralised, state capitalist economy was coming into being in Hungary.

Although ferociously oppressive and exploitative, the Soviet model initially proved relatively successful as a framework for capital accumulation in Eastern Europe, as state-led development 'from above' contributed to rapid industrialisation, urbanisation and upward social mobility (Dale, 2011: 2–3; Tamás, 2008). In the case of Hungary, national income increased by approximately 20% between 1948 and 1950, while capital accumulation grew by 54%. By 1953, industrial output was almost three times higher than in 1938, while its share of national income had increased from 39% in 1939 to 54% in 1954 (Berend and Ránki, 1985: 202; Romsics, 1999: 275). Having said this, the limitations of Soviet-style state capitalism were becoming visible by the early 1950s, as the vast reserves of labour that had enabled rapid economic growth during the phase of (socialist) 'primitive accumulation' were coming to an end. Moreover, attempts to enforce the productivity agenda among workers through the introduction of a new wage system, known as the 'piece-rate' system (*darabbér*), and Taylorist management techniques turned out to be much more difficult than the Stalinist leadership originally envisaged, with workers often contesting the competitive culture or subverting the intentions of the regime through various forms of 'informal bargaining' on the shop floor level (Haraszti et al., 1977; Pittaway, 2012, 2014).

The death of Stalin in 1953 brought a period of ideological *détente* and mild reforms throughout the Soviet bloc. In Hungary, the heavy-handed Rákosi was replaced by Imre Nagy, a reform-minded communist and agricultural economist, at the head of the government (although the former retained de facto control of the party, remaining its general secretary). Nagy openly criticised the rationality of the Stalinist model of economic development promoted by Rákosi and called for an easing of political repression in society, including a curb on the powers of the hated secret police; an end to the oppression of 'class enemies' (from well-to-do peasants, known as *kulaks*, to old party comrades, including János Kádár, the future leader of Hungary, who had fallen out of favour with the Rákosi regime in 1951); and other liberalising measures. In the autumn of 1953, Nagy introduced a programme of economic reforms, known as the 'New Course', which sought to decelerate the speed of capital accumulation and increase living standards by shifting capital investment from heavy industry to agriculture, food processing and consumer goods and housing construction (for an overview of the Nagy government's policies, see Rainer, 2009: 64–73; Romsics, 1999).

In order to develop further reforms, Nagy re-established a professional environment for economics, previously dismissed under Rákosi as a 'bourgeois pseudo-science' (Berend, 1990; Bockman, 2011; Csaba, 2002). Between 1953 and 1955, economists allied with Nagy published a number of works that criticised the system of centralised planning while offering reform proposals that sought to 'perfect' the 'economic mechanism' (cf. Balázsy, 1954; Kornai, 1957; Péter, 1956). However, as the economic situation worsened in the second half of 1954, debates on economic policy intensified between Rákosi's and Nagy's supporters. Eventually, the latter were forced to surrender, and the policies of the Nagy government were condemned as a 'right-wing deviation' by the Central Committee (CC) in March 1955 (Nagy was forced to resign and later expelled from the Party).

Once back in power, Rákosi and his supporters attempted to resume the Stalinist model of development, calling for an 'increase in productivity and efficiency, the precise fulfilment and *overfulfilment* of the plan' (Rákosi, here cited in Romsics, 1999: 298). However, the clampdown on reform antagonised wide layers of Hungarian society, including sections of the working class, dissident intellectuals and students, culminating in the Revolution of 1956, which was eventually crushed by Soviet troops (on the Revolution of 1956, cf. Harman, 1988: 119–186; Lomax, 1976). With the defeat of the Revolution, the first, brief reformist interlude had officially come to an end.

The New Economic Mechanism

Having consolidated his power within the party-state, the new leader, János Kádár, installed by Soviet diktat, pursued a pragmatic approach in order to rebuild the legitimacy of the regime. Political oppression was gradually relaxed; the centralisation of resources replaced with economic policies favouring the improvement of living standards and the strengthening of diplomatic and economic relations with the West. Throughout its 32 years in power, the economic policies of the Kádár regime were to be characterised by the attempt to uphold its fragile hegemony over Hungarian society, while responding to broader geopolitical and economic pressures. However, this was not an easy task to achieve at a time when economic growth in the Soviet bloc was decelerating, while shortages of labour, raw materials, capital and consumer goods were rising. Moreover, rigid internal production structures, favouring industrial production over specialisation in goods and services, made it difficult for the Soviet-style economies to adapt to changes in internal and external market conditions (Aldcroft and Morewood, 1995: 113–116; Comisso and Marer, 1986: 423–429; Fejtö, 1971: 251–252; Seleny, 2006: 67).

Faced with structural and conjunctural exigencies, leaders throughout the Soviet bloc started to push for economic reforms. In Hungary, debates on economic reform had resumed in 1957 (Wagener, 1998: 170–171) but accelerated after the 8th Party Congress in 1962, at which members of the *nomenklatura* voiced concerns over Hungary's poor export performance and the lack of productivity of state-owned enterprises (Földes, 1995: 27–31). In response to these concerns, a decree was passed in December 1964, calling for the elaboration of a comprehensive reform of the economic mechanism within 2 years. The rationale behind the reforms was spelled out in straightforward, but dramatic terms by the CC (MSZMP, 1966, my translation and emphasis):

> its [the reform programme's] economic necessity is rooted in the fact that the *past sources, reserves of economic growth are being depleted*. Hence, rapid growth in the future is only possible through a *more intensive exploration of our internal economic reserves* and by *accelerating technological development*. The political importance of the reforms lies, above all, in the fact *that it seeks to ensure a rapid increase in the living standards of the masses, and strives to ensure that the living standards of each worker will be more dependent on the social usefulness of his or her labour, individual performance, and collective productivity*. Moreover, *the reform also has as its political aim to further individual initiatives and responsibility by removing barriers and excessive constraints, and combat bureaucratic tendencies*. (pp. 8–9)

As the above quote demonstrates, the reasons behind economic reform in 'socialist' Hungary were strikingly similar to the logic of 'competitive accumulation' that operated in the 'capitalist' states in the West.[15]

The task of coordinating the work was entrusted to Rezső Nyers, a former Minister of Finance and outspoken reformist. Officially introduced on 1 January 1968, the New Economic Mechanism (NEM) built on the ideas associated with Nagy's New Course but also incorporated insights of local reform economists, such as Tibor Liska, János Kornai and Márton Tardos, who were all well trained in neoclassical economics (Berend, 1990: 139; Swain and Swain, 1993: 135; Tökés, 1996: 95). In addition, the NEM also drew on insights from East–West knowledge exchange. By this time, Hungarian economic research was already well integrated in the international epistemic community and the country's relative openness within the Soviet bloc allowed economists to travel and work in the West. For example, the Ford Foundation provided fellowships to Hungarian economists, which enabled them to travel to the United States and familiarise themselves with the latest critique of the Soviet-style economies (Bockman, 2011: 128). As Bockman (2011: 128; see also Csaba, 2002; Gagyi, 2015) argues, the combined effect of these developments was that in applied fields, such as finance, management and marketing, neoclassical economics set the standards long before the collapse of the Soviet bloc.

The NEM sought to respond to the above-mentioned pressures facing the Hungarian economy by introducing reforms in four key areas. First, it reduced the role of centralised planning and resource allocation in the economy, providing greater autonomy to enterprises with regard to allocation of resources for production and investment. Second, world-market prices were granted a more active role in the economy, although state control of agricultural products, consumer goods and domestic raw materials remained strong to counterbalance inflation. Third, the labour law was redesigned in order to promote efficiency and increase enterprise profitability. Fourth, and finally, the NEM explicitly encouraged further re-integration of the Hungarian economy with the capitalist world economy through the mechanism of foreign trade (for an overview, cf. Adair, 2003; Bauer, 1983; Hare et al., 1981). Overall, the reforms benefited primarily the agricultural sector and state-owned enterprises (and managers at the helm of those companies) with access to superior technology and capacity to export to Western markets, while low-technology industries, primarily exporting to Council for Mutual Economic Assistance (COMECON) markets, were disfavoured (Gagyi, 2015: 64).

In addition, and more interesting from our theoretical perspective, the NEM also contributed to a shift in power relations within the party-state itself. As Gagyi (2015: 65) observes, the influence of classical actors of economic policymaking such as National Planning Office and the ministries of specific economic branches weakened, while the Ministry of Finance moved to become the main bastion in terms of institutional power. The changes brought about by the NEM also influenced individual power relations inside the party-state, with controllers, engineers and technicians working on concrete details of fulfilling the plan losing ground to economists and accountants dealing with decisions based on financial concerns. As Kemenes (1981) noticed, 'In 1968 when the reform was introduced, the economists' new role became institutionalised. The economic way of thinking, using quantitative terms and observing economic laws and interdependencies, gained ground' (p. 583). As a result of this transformation, a new generation of reform economists was provided training in neoclassical economics and incorporated into the party-state as technocratic 'experts' on the new economic system, while new research institutes were formed to accommodate them. The establishment of the FRI in 1968, as the official research institute of the Ministry of Finance, responsible for carrying out research and supporting the work of the Ministry, was part of this transformation of the economy and of the subsequent shift in institutional and professional power relations.[16]

The reforms come to a temporary halt

Initially, the NEM seemed to fulfil its main objective, as the Hungarian economy produced impressive growth rates of 6%–7% annually between 1966 and 1975 (compared to an average annual growth rate of 4.1% between 1961 and 1965) (Germuska, 2014: 285; Rainer, 2011: 180; Romsics, 1999: 348). The apparent success of the reforms attracted widespread interest from economists, policymakers and political commentators in East and West alike.[17] For example, US policymakers argued that the NEM represented 'the most interesting, most successful, and most obvious example within the Warsaw Pact countries of internal modification of the basic Soviet politico-economic model'. As the authors went on to note, 'The business minded and trade-oriented Hungarians … have given a high priority to achieving more market oriented production through greater enterprise latitude and flexibility' (Keefer et al., 2008; see also Granick, 1973). However, despite these accolades, the Hungarian market reforms were facing increasing pressures.

First, there was growing criticism by 'hardliners' within the MSZMP, who railed against the perceived decline of 'socialist values' and the growth of 'petty bourgeois attitudes' in society (Adair, 2003: 115–121; Batt, 1988: 267–275; Berend, 1990: 201–231; Romsics, 1999: 354). Second, there was growing opposition from sections of the working class, in particular industrial workers, who complained of falling living standards, increasing overtime work and the emergence of what they perceived as a 'new class', consisted of sections from the party intelligentsia and newly enriched enterprise managers (Berend and Ránki, 1985: 244; Pittaway, 2014: 192–214; Vass, 1974: 462). Third, Hungarian reformers were also facing criticisms from 'fraternal states' in the Soviet bloc, in particular the Soviet leadership under Brezhnev, who, bearing in mind the recent uprising in Czechoslovakia (1968), worried about the NEM's 'negative effects' on the 'political and ideological unity of the socialist camp' (Romsics, 1999: 354; Tökés, 1996: 102–104).

As a result, the Kádár regime distanced itself from the NEM: in November 1972, the CC decided to slow down market reforms and shift back towards more autarchic, technologically intensive development. The main beneficiaries of this shift in economic policy were Stalinist 'hardliners' within the party-state, managers of big state enterprises and the industrial trade unions (Adair, 2003: 118–120; Berend and Ránki, 1985: 245–246; Romsics, 1999: 354; Swain, 1992: 115–123; Tökés, 1996: 107). At the same time, advocates of market reform within and outside the party-state were forced on the defensive; Nyers was dismissed from the Politburo in 1974 (although he retained his position in the CC). As for the great generation of reform economists that had participated in the preparation of the NEM, most of them abandoned politics, seeking refuge in the academia or in research institutions, where they could sharpen their ideas until the question of reform returned on the agenda.

However, market reformist ideas did not remain in the ideological freeze box for long in Hungary. Faced with the negative impact of the global economic crisis of 1973 and apparent limitations to COMECON integration, the leaderships of the Soviet bloc regimes were forced to bow to the pressures of capital – what Trotsky (1977: 27) had described as the 'whip of external necessity' – and gradually abandon central planning in favour of the market and greater integration with the capitalist world economy (Germuska, 2014; Shields, 2012; Steiner, 2014). This was to be achieved by importing advanced machinery and technology from the West, which was to be financed through loans from Western states, private banks and international financial institutions (IFIs) (Aldcroft and Morewood, 1995: 157). According to the plan, advanced Western technology would lead to productivity gains and expand production of industrial and agricultural goods, thereby enabling Western loans to be repaid. The Kádár regime supported this strategy, as it believed that foreign loans and Western technology would enable the Hungarian economy to overcome its sclerotic characteristics while permit the regime to refrain from pursuing unpopular austerity measures similar to those being implemented by many governments in the West.[18] The plan backfired, however, as exports failed to keep up with rising current account deficit and state debt (Aldcroft and Morewood, 1995: 157; Janos, 2000: 293; Köves, 1985: 101; Lavigne, 1991: 324, Table 20). Moreover, the problems of the Hungarian economy were compounded by the USSR's decision to impose world-market prices on oil provisions from 1975 onwards and Federal Reserve Chairman Paul Volcker's decision to spike interest rates in 1979. As a result, inflationary pressures sky-rocketed, while the country's foreign debt-burden reached precarious levels.[19] With access to credit drying up on international financial markets in the early 1980s, the Kádár regime eventually faced a severe liquidity crunch in the spring of 1982 – just as a number of 'developing' countries in the Global South – that was only averted by further loans from Western banks and IFIs, such as the International Monetary Fund (IMF) and the World Bank, which Hungary had officially joined in May 1982 (Aldcroft and Morewood, 1995: 161; Bartlett, 1997: 55–57; Janos, 2000: 293; Lavigne, 1991: 319–321, 345–347).

The resumption of the reform process and the emergence of proto-neoliberal social forces: the FRI in context

By the early 1980s, the symptoms of crisis were becoming increasingly visible throughout the Soviet bloc, as evidenced by deepening stagnation and indebtedness (Lavigne, 1991: 324, 386). While the situation was not as bad as in Poland, where the economic crisis had transformed into a full-blown political crisis, which was only overcome following General Jaruzelski's imposition of martial law in December 1981,[20] the development of the Hungarian economy gave few reasons for optimism, with annual economic growth down from 6.6% between 1971 and 1975 to 2.9% between 1976 and 1980 (Lavigne, 1991: 386–387; Rainer, 2011: 180). At the same time, domestic discontent was brewing, as real wages were declining (despite increasing overtime work), forcing many workers to turn to the mushrooming 'second economy', in an attempt to maintain their living standards. Making matters worse, the Kádár regime faced mounting economic and political pressures from the West, as a result of the 1982 debt crisis and the Reagan administration's unilateral decision to reassert US hegemony by increasing arms spending.

All this was bad news for Kádár and the other leaders of the Soviet bloc regimes, who found themselves increasingly incapable of upholding their fragile 'social contracts' under these circumstances. As Harman (1988) explained,

> By 1981, the choice between maintaining the closed economy and opening up to the rest of the world was indeed the choice between the frying pan and the fire. The first option meant deepening stagnation, growing waste, an inability to satisfy the demands of the mass of the population, and the continual danger of working class rebellion. The second option meant binding oneself into the rhythm of a world economy increasingly prone to stagnation and recession – and giving up the administrative means to stop recession involving contraction of

> the domestic economy. That is why the Polish crisis of 1980-81 was so traumatic for all the rulers of Eastern Europe. It proved that there was no easy solution to the problems besetting every state. (p. 332)

Faced with what was effectively a 'Hobson's choice', the Kádár regime opted for the second option, promoting a second wave of reforms from the late 1970s onwards, in an effort to gain time.

The return of the reform agenda encouraged the re-emergence of actors and institutions, whose influence had been stifled by the conservative turn of the Kádár regime from the early 1970s onwards, to sharpen their arguments for reform. In this struggle for reforms, an 'unholy alliance' of pro-market forces emerged. The first group in this coalition consisting of young, reform-minded members of the MSZMP – what Szalai (1999) has termed the 'late Kádárist technocracy' – who were unhappy about economic and political decline and believed that market-style transformation would enable them to formalise the political and economic positions of power that they had already partly wrestled from the old Kádárist *nomenklatura*.[21] Their arguments received intellectual backing from reform economists, such as Bauer (1976, 1982, 1983) and Kornai (1980, 1986), sociologists (cf. Ferge, 1980; Héthy and Makó, 1974; Szelényi, 1978), as well as IFIs, such as the IMF and the World Bank, whose influence strengthened in proportion to the indebtedness of the Hungarian state. The third group favouring reforms was the nascent democratic opposition. Primarily consisted of dissident intellectuals, oppositionists in Hungary and elsewhere in Eastern Europe were influenced by wider economic and political trends. The gradual demise of the Left in the 1970s, both at home and internationally, stifled Marxist criticisms of the Soviet-style socialism.[22] Instead, dissidents drew inspiration from the ascendancy of neoliberal economic policy and ideology and the geographical spread of liberal–democratic government from the mid-1970s onwards, what Huntington famously described as 'the third wave of democratisation' (Huntington, 1991). They were also emboldened by the success of Solidarity in Poland but dismissed the former's insistence on independent working-class organisation, appealing instead to liberal slogans, such as 'civil society' and 'democracy', and later 'markets' and a 'return to Europe' (Csizmadia, 1995; Dale, 2011: 6–8; Kenney, 2003: 91–156; Shields, 2012: 61–66; Tamás, 2010).[23]

By the mid-1980s then, a consensus view had come to prevail within this unholy alliance that the solution to Hungary's economic malaise was to open up the economy to the exigencies of the world market, while simultaneously seeking to reconfigure the role of the state in the economy, along neoliberal lines. It is at this critical conjuncture that we can see the emergence of proto-neoliberal social forces in Hungarian society. In the remaining part of this section, we seek to offer some further details about the intellectual and organisational roots of this movement and some of its most renowned representatives.

The FRI

The resumption of the reform agenda led to reorganisations within the Ministry of Finance and the FRI too. In 1975, Minister of Finance Lajos Faluvégi appointed István Hagelmayer (born 1933), a young economist and head of the Department of Financial

Economics at the Karl Marx University, as new Director of the Institute and entrusted him with the recruitment of new research staff, capable of providing theoretical support for economic reforms (Gagyi, 2015: 67; Pogány, 1998: 35). Concurrently, Faluvégi initiated a process of renewal within the Ministry of Finance: the average age was brought down to 29 in 1976 (compared to 50 in other ministries), and this figure reached even lower levels in the 1980s. As part of this reorganisation wave, 'some of the greatest minds of a new generation of reform economists' (Petschnig, 2011, personal interview) joined the institute in the second half of the 1970s, including László Antal, László Asztalos, Lajos Bokros, Mihály Kupa, László Lengyel, Mihály Patai, György Surányi, Márton Tardos and Éva Voszka. They were joined in the 1980s by a new wave of reform economists, including Katalin Antalóczy, István Csillag, György Matolcsy and Riecke Werner.[24] As a result of this recruitment drive, the institute employed 38 researchers full time by 1985 (a more than three-time increase from 1968), with another 13 employed in part-time positions (Pogány, 1998: 67, Table 1). Later nicknamed the 'Dimitrov Square Boys' (Sas, 1989), in reference to the Karl Marx University of Economics – 'the principal institution for the education of Hungary's economic and political elite' (Phillips et al., 2006: 588) and also the place where most of the members of this group received their economics education – this group of economists would play a key role in the publication 'Turnabout and Reform' in 1987 and the neoliberalisation of the Hungarian economy thereafter.

The economists that joined the FRI in the late 1970s/early 1980s were lured by the possibility of working in a research environment free from political interference, with access to up-to-date (and sometimes confidential) data on the Hungarian and the world economy, as well as the chance to earn a relatively high salary. As one former member later confessed in an interview:

> The institute was an intellectual citadel; in fact, we were on the top of an intellectual peak, with a higher salary than in the academic institutions, with access to much more information [on the Hungarian economy], including top-secret materials … And we also developed a sense of responsibility that we will save Hungary [from its deepening economic crisis]! (Szalai, 2011, personal interview; see also Andor, 2010: 160–161; Bokros in Rádai, 2001: 166–167; Tökés, 1996: 191–195)

Apart from being well versed in neoclassical economics, many of them were also fluent in English and/or German, which probably facilitated their imbedding into international neoliberal circles, as Gramsci (1973) discussed in a note on language:

> Culture, at its various levels, unifies in a series of strata, to the extent that they come into contact with each other, a greater or lesser number of individuals who understand each other's mode of expression in differing degrees, etc. (p. 349)

In terms of their political views, most of them adhered to a 'technocratic' *Weltanschauung*, although, as we shall see below, this did not stop them from harnessing close relations with proponents of reform both within the party-state *and* the nascent democratic opposition, as well as international financial circles. Indeed, this probably only facilitated in shaping the illustrious career paths that many of the 'Dimitrov Square Boys' later enjoyed, with several taking up key roles in government, business and academia. As the list below (by no means exhaustive) shows:

1. Lajos Bokros (born 1954). After leaving the FRI in 1987, he served as the head of the newly formed State Property Agency (1990–1991) and as chief executive officer of Budapest Bank (1991–1995), before being appointed Minister of Finance in Gyula Horn's socialist–liberal government coalition in 1995. Having planned and overseen the introduction of the largest austerity programme in the history of post-transition Hungary, commonly known as the 'Bokros Package',[25] Bokros was forced to resign 1 year later amid widespread criticism. Since then, he has worked as a consultant for the IMF and the World Bank, as well as briefly working as a Professor in Economics at the Central European University.
2. György Surányi (born 1954). An old friend of Bokros (the two did their military service together), he has enjoyed a similarly glittering transnational career. Having worked as chief policy advisor and deputy secretary of state in the Németh government, he moved on to head the Hungarian National Bank (MNB) – a position he has held twice (1990–1991 and 1995–2001). During this period, he played a key role in the neoliberalisation of Hungary: for example, he co-authored the Bokros Package and during his tenure at the MNB the liberalisation of the financial sector continued apace. More recently, he served as regional head of Banca Intesa San Paolo in CEE.
3. György Matolcsy (born 1955). Following the regime change, he briefly served as economic advisor to Prime Minister Antall, from where he moved on to serve as the Hungarian government's representative at the European Bank for Reconstruction and Development (EBRD; 1991–1994). Initially, an outspoken advocate of free markets, in particular 'spontaneous privatisation' (Matolcsy, 1990), he became increasingly critical of capitalism 'red in tooth and claw' from the mid-1990s onwards, advocating a stronger presence of the state in the economy. Since then, Matolcsy has harnessed close ties with the national–conservative FIDESZ and its leader Viktor Orbán. He served as Minister of Economy in the first and second Orbán governments (1998–2002 and 2010–2013) and is currently the President of the Hungarian Central Bank (since 2013).

Interestingly, many of the above characteristics have been identified by scholars as a common feature of neoliberal reformers elsewhere, from the infamous 'Chicago Boys' that oversaw the implementation of 'shock therapy' in Chile, through Mexico's neoliberal reformers in the 1980s, to the informal group of radical reform economists, known as the 'Balcerowicz Group', that descended upon the Polish economy in 1989 (Babb, 2004: 171–198; Greskovits, 1998: 35–52; Shields, 2012: 60–74). As Balcerowicz (1995) has argued with regard to Poland: 'The shared background, commonality of purpose, similar age (around 40), and the common pressures created what quickly became known as the "Balcerowicz team"' (pp. 303–304).

The areas of economic research and expertise developed at the FRI were, as Pogány (1998: 38–42) and Gagyi (2015: 67) observe, closely connected with the above-mentioned personnel changes and the institute's position in the reform process. Following the introduction of a second wave of reform, from the late 1970s onwards, the FRI's work came to focus on two areas in particular: (1) the reorganisation of large, state-owned enterprises (to roll-back their privileges from the centralised planning system) and (2) financial sector reform, including tax reform and the strengthening of fiscal policies (to reduce the fiscal crisis of the state). Hence, the two main areas of research and criticism developed by the FRI in this period were 'institutionalism' and 'monetarism'.

The institutionalist field of research had antecedents within the FRI but was reinforced by the above-mentioned reorganisation wave and the arrival of Antal in 1977, as new head of the FRI's research department. Drawing on his experiences in the Ministry of Finance (where he had worked for nearly a decade), Antal (1979) began to study the shortcomings of the NEM. In 1979, he published an influential book, *Development – with some digression (Fejlődés kitérővel)*, which set the tone for later institutionalist critiques of socialism. Written with great linguistic ingenuity, Antal suggested that the system of centralised, top-down planning introduced by Rákosi had established 'systematic bargaining relationships' between large enterprises and central planners, which had not been broken down by the economic reforms introduced in 1968. Hence, enterprises were not determined by 'market signals' of demand and supply but remained dependent on individual bargains with the party-state, which large and influential companies – and their leaders – could adapt according to their needs, thereby maintaining their privileged positions in society. In Antal's view, the only solution to this problem was to deepen the market reforms introduced in 1968 by promoting increasing competition and world-market integration. Empirical studies by researchers at the FRI and the Institute of Economics of the Hungarian Academy of Sciences, on enterprise behaviour in Hungarian industries and investment cycles in Soviet-type economies, came to similar conclusions as Antal (Bauer, 1976, 1983; Bauer and Boros-Kazai, 1984; Csanádi et al., 1984; Sóos, 1980; Szalai, 1981, 1989; Voszka, 1984).

The monetarist field of research commenced in the late 1970s, when a group of newly graduated economists, including Asztalos, Bokros and Surányi, joined the FRI. This group was well versed in monetarist economic theory, in part thanks to training courses offered by the IMF and the World Bank,[26] and frequently cited neoliberal classics, such as Friedman and Hayek, to legitimate their argument that only full-scale liberalisation in combination with strict fiscal discipline could resolve Hungary's economic woes (Bokros and Surányi, 1985). However, as Gagyi (2015: 67) notes, 'this standpoint did not mean that they became stigmatized as enemies of the system'. On the contrary, the 'finance boy's' where hailed by Antal, the head of the FRI's research department and presented as poster boys for other researchers. Soon they would be involved in the formulation of the second wave of reform, in particular financial sector reforms.

The impact of the 'Dimitrov Square Boys' in establishing neoliberal hegemony in Hungary cannot be stressed enough. Although their criticism of the Kádár regime drew on different theoretical frameworks (institutionalism vs monetarism), their policy prescriptions *converged* around the idea that 'actually existing socialism' was irreparable and needed massive, immediate and wholesale reforms, which could only be achieved by the introduction of a (free) market economy and a democratic reforms. As Ripp (2006) noted in hindsight, by the second half of the 1980s, this group of radical reform economists had 'already been successful in changing the intellectual climate of Hungary' (p. 30).

So, how then did the members of the FRI interpret the crisis that was engulfing the ailing Hungarian economy in the 1980s and what solutions did they offer to overcome these problems? It is to this we turn our attention next: the radical reform programme of 'Turnabout and Reform'.

'Turnabout and Reform': the construction of neoliberal consent in practice

Despite the resumption of economic reforms in the late 1970s, Hungary's economic difficulties showed no signs of abating. In 1985, gross domestic product (GDP) fell by 1% (compared to a planned increase of 2.5%), partially as a result of adverse weather conditions and weak external demand for Hungarian products (the latter a sign of the low competitiveness of Hungarian products on the world market; World Bank, 1986). However, rather than favouring macroeconomic stabilisation and adjustment to world-market conditions (as advocated by local reform economists and IFIs), the party leadership opted to introduce a programme of economic acceleration at the 1985 party congress. While this strategy had failed decisively by 1987, as Hungary's external debt soared to new record levels,[27] it reinforced the position of reformers at home and abroad.

As the stagnation of the Hungarian economy continued, reform economists were encouraged by new developments within the democratic opposition movement. By the early 1980s, FRI researchers had established contacts with the democratic opposition, with some of them even publishing articles under pseudonyms in samizdat journals. In the summer of 1985, shortly after Gorbachev had assumed power in the Soviet Union, members of the FRI (Antal, Lengyel and Szalai) participated at the first formal meeting of the democratic opposition, held in the village of Monor, under the group name 'reform economists' (the contributions to the Monor meeting are collected in Rainer, 2005).

Witnessing these events unfolding convinced the FRI researchers to declare their position on the country's situation. Having consulted with advocates of reform within the party-state, including the above-mentioned Nyers and Imre Pozsgay,[28] they began a collective effort to publish a comprehensive reform programme. In total, >50 contributors, not only from the FRI but also from the party-state and other research institutions, were included in the writing process. It is at this point that the 'Dimitrov Square Boys' officially unveiled themselves as a social force for neoliberal transformation. Below, we look at how the FRI researchers interpreted the crisis that was engulfing the ailing Hungarian economy in the 1980s and what solutions they offered to overcome these problems.

Written in a similar, uncompromising vernacular as Friedman and Friedman's (2002) *Capitalism and Freedom* or Hayek's (1986) *The Road to Serfdom*, 'Turnabout and Reform' depicted a gloomy picture of the Hungarian economy. The signs of the crisis were multiple, including falling (in some years negative) rates of economic growth; stagnating living standards, mounting state debt and a growing risk of bankruptcy; increasing rate of inflation; and a growing loss of trust in state institutions. According to the document, these negative features were not accidental but *inherent* to the structures of 'socialist' economy. (Here, the authors remained noticeably silent about the fact that similar 'crisis signs' were visible in advanced capitalist states at the same time.) In order to overcome these problems, the document called for '*comprehensive, radical, democratising, decentralising, and deregulating market reforms*'. These measures were to be implemented simultaneously with changing ownership relations, severe macroeconomic restrictions and redistributive measures. While the document admitted that the suggested reforms would result in rising unemployment, reduction of real wages and falling living standards, it argued that such negative consequences were *necessary* in order for the reforms to be 'successful' (Antal et al., 1987: 5, 16–22, 28–29, 30–36, emphasis in original).

From a political perspective, the main breakthrough of 'Turnabout and Reform' was its conclusion that radical reforms *could not* be limited to the economy but had 'to extend to other areas of society, including political institutions'. This view stemmed from the authors' conviction that the proposed economic reforms required 'strong political will' and could only be introduced 'from above'. However, in order for this to take place, there was a need for a shift in the balance of power within the ruling MSZMP; replacing the old, Kádárist *nomenklatura* with a new generation of pro-reform technocrats. (This view coincided with the position of leading reformers within the ruling MSZMP, as well as the different strands of the democratic opposition.) In line with this, the document called for limited political reforms, including '[g]reater freedom and autonomy for citizens and communities', political equality and plurality, and encouraged the 'popular involvement and active participation' of civil society in reform debates by increasing the freedom of the press, freedom to form interest groups and the right to association. Meanwhile, the hegemony of the party-state was to be limited and regulated by constitutional means. Ultimate responsibility for the economy was to be transferred from the ruling party to the government, which was to be provided with greater powers when it came to the revitalisation of enterprises, the creation of new markets and the maintenance of restrictive monetary policies, and become responsible to a democratically elected parliament (Antal et al., 1987: 6, 17, 36–42).

Overall, the reforms outlined in 'Turnabout and Reform' constituted what Harvey (2007) has described as a 'class project'. However, contrary to Harvey's argument, which is widely shared among radical critics of neoliberalism (cf. Duménil and Lévy, 2004; Gowan, 1999; Klein, 2007), I argue that it did *not* represent a 'restoration' of class power (for it had never disappeared under state capitalism), but rather its 'retention' (albeit with modifications), in an attempt to rescue the Hungarian state from the deepening crisis that was engulfing the economies of the Soviet bloc in the late 1980s. While masked by a liberal rhetoric that appeared attractive to large sections of Hungarian society at the time (provision of greater individual 'freedoms', 'human rights', etc.), the document was, as one of its authors later noted, in effect a 'conservative manifesto', which utilised neoliberal ideas in order to promote the restoration of individual property rights, increasing social inequalities and the abolishment of the all-powerful party-state (Csillag, cited in Varga, 1992). Ultimately then, as Ripp (2006: 28; see also Szalai, 1999) has argued, whether explicitly or not, these reforms 'supported the interests of those "technocrats," within the party and in leading positions, who, after having stripped themselves of any ideological constraints, were preparing to take power [in society]'.

The impact of 'Turnabout and Reform' on reform debates in late 'socialist' Hungary

The proposals presented in 'Turnabout and Reform', and the neoliberal doxa upon which it drew its intellectual inspiration, rapidly became accepted as 'common sense' in Hungarian society. In December 1986, a draft version of the document was presented at an academic seminar in Budapest. Attended by around 50 reform intellectuals, the meeting was buzzing with a sense of renewal. As one participant recalls: '[t]his was a *very important* meeting. I think that this was where we first realised that it was more than just a "reform" that was at stake. *My dear God, the whole regime is at stake here!*' (Kéri, 2011, personal interview). The document was well received by the audience and soon gained notoriety within the mushrooming democratic opposition and among 'reform communists', while positive reports were written by the international press (Lengyel, 1987). In June 1987, an abridged version was published in *Közgazdasági Szemle* (the main economics journal in Hungary), with a response by the Economic Subcommittee of the MSZMP. The committee *accepted* the document's analysis of the general economic situation but dismissed its emphasis on monetary restriction as too simplistic (MSZMP, 1987a). Later that year, a statement by the CC confirmed the ideological volte-face that was underway within the party-state. According to the statement,

> The second economy and the private sector are *integral* parts of the socialist economy [sic!]. All initiatives that contribute to the increase of the national income and to the amelioration of the living standard of the population should be encouraged. (MSZMP, 1987b)

Although both party documents still abounded in socialist rhetoric and avoided the question of political reform, it was increasingly clear that Hungarian society was undergoing a process of a fundamental transformation.

With hindsight, it is hardly an overstatement that 'Turnabout and Reform' signalled an ideological breakthrough in Hungarian reform discourse. Indeed, many of its proposals could later be recognised in the structural reforms introduced by the last two 'communist' governments, headed by Károly Grósz (1987–1988) and Miklós Németh (1988–1989), including the *Law on Bank Reform* introduced in 1987 or the *Law on Business Organisations* and the *Law on Foreign Investment* that came into force on 1 January 1989 (Andor, 2000: 21; Ripp, 2006: 37). As Swain (1992) has noted,

> The company law [the Law on Business Organisations], in a fundamental sense, can be seen as having reintroduced capitalist – certainly embryonic capitalist – relations into Hungary in two ways. First, it conceded the principle that natural and legal persons could own, buy and sell shares in the means of production, distribution and exchange. Second, less abstractly, it was the legislation that was actually used throughout 1989 and 1990 for both piecemeal, spontaneous and state-initiated privatization. If the company law permitted the development of domestic capitalism, the law on foreign investments permitted foreign capitalists to repatriate their profits, and do so on very generous terms. (p. 10)

Traces of the document were also visible in the numerous 'blueprints' for the transition that were published in 1989–1990, from Kornai's famous 'passionate pamphlet' (Kornai, 1990), through the economic programmes of the democratic parties vying for power after 1989 (Laki, 2000), to the policy proposals of domestic and international commissions, such as the Blue Ribbon Commission (*Kék Szalag Bizottság*), the Bridge Group (*Híd-csoport*) or the Battelle Memorial Institute (Híd-csoport, 1990; Hieronymi, 1990; Kék Szalag Bizottság, 1990).

As for the FRI, it was closed down in the summer of 1987 by the newly appointed Minister of Finance Péter Medgyessy. The decision was widely perceived at the time as an attempt to stem the political waves created by the document, although Medgyessy (cited in Rádai, 2001: 233; see also Pogány, 1998: 60–66; Swain, 1992: 16–17) maintained that it was for 'financial reasons'. However, rather than a sign of strength, the decision was an indication of the growing intellectual disorientation and political infighting within the MSZMP. As a sign of the changing times, the institute was reopened later in the autumn of that year, after an alliance of private banks and large companies decided to resuscitate it as a private enterprise (Petschnig, 2011, personal interview). While the enterprise sought to continue the intellectual tradition represented by its predecessor, many of the FRI's leading members decided to move on to become policy advisors to the government or the parties of the opposition, while others took up well-paid jobs as consultants to company leaders, including advice on what has come to be known in the transformatology literature as 'spontaneous privatization' (Stark, 1991; for an example of this process in Hungary, see Szelényi et al., 1995), a process whereby state-owned enterprises were stripped of their most profitable assets and sold off to insiders, including managers and members of the late Kádárist technocracy. While this process unfolded without much resistance from 'communist' officials and wider Hungarian society, its significance cannot be overemphasised: members of the party ruling class realised that operating in market conditions meant that their interests lay with private capital.

Conclusion

This article analysed the ascendancy of neoliberalism in late 'socialist' Hungary as a paradigmatic case of neoliberal transformation in Eastern Europe, while, in *passim*, exploring the similarities and differences with other 'paths to neoliberalism' – to borrow the title of Fourcade-Gourinchas and Babb's (2002) oft-cited article – elsewhere. To begin with, we critiqued the argument, still dominant in the 'transformatology' literature, which depicts Hungary and other Soviet-style economies as 'socialist'; operating to a fundamentally *different* logic from those of the 'capitalist' West. Drawing on the theory of state capitalism, we argued that increasing state intervention in the economy was not limited to Soviet-style economies but was discernible to varying degrees throughout the capitalist world economy in the period of state monopoly capitalism/finance capitalism (1873–1929/1945) and in the subsequent period of state capitalism proper (1945–1973). In this sense, it is arguably more useful to see these societies as existing on a *continuum* of state intervention, with two extremes – the US and the Soviet Union – at opposite ends of the scale (Davidson, 2015: 126; 'What was Neoliberalism?' in Davidson et al., 2010: 37). It was a particularly conspicuous feature of authoritarian states (the USSR from the late 1920s, Germany and Japan in the 1930s) that were attempting to 'catch up' with core capitalist economies in the world economy, as well as of various 'developing' countries in the Global South from the 1950s and onwards, where the absence of a strong domestic bourgeoisie, together with the pressures of international economic competition and geopolitical rivalry forced local ruling classes to turn to the state in order to promote capital accumulation (Amsden, 1989, 2001; Böröcz, 1992, 1995; Dale, 2004; Gao, 2002; Shields, 2012).

In the case of Hungary, state intervention became an important feature of the economy during the interwar years, and this trend intensified following ascendancy of the Rákosi regime in 1948, as the country was formally integrated into the Soviet sphere of interest. With de-Stalinisation (1953–1955), Imre Nagy sought to correct the Stalinist policies of the Rákosi regime, introducing a programme of de-acceleration, which sought to increase living standards, agriculture and consumer goods over heavy industry. These reforms were supported by professional economists, allied with Nagy, but were eventually defeated by Soviet tanks in the Revolution of 1956. However, by the early 1960s, the inherent limitations of the Soviet model were becoming increasingly visible, as the sources of (socialist) 'primitive accumulation' (vast reserves of land and labour) were being depleted. This prompted the leadership of the Hungarian party-state, under János Kádár, to elaborate a comprehensive programme of economic reforms, which sought to increase the autonomy of state-owned enterprises in production and investment decisions, expand the role of world-market prices in the economy, introduce a differentiated wage system and increase foreign trade with advanced 'capitalist' states in the West. Building on insights of local reform economists, who were well integrated into the international epistemic community, these reforms were supposed to lead to efficiency savings, spur productivity growth and raise living standards, thereby enabling the Kádár regime to maintain its fragile 'social contract' with Hungarian society. Introduced in 1968, the New Economic Mechanism reorganised power relationships within the party-state, with the National Planning Office ceding power to the Ministry of Finance, while a new generation of reform economists was educated in neoclassical economics, in order to be incorporated into the party-state as technocratic 'experts' on the new economic system. The establishment of the FRI, in 1968, was an important part of this reorganisation process.

Second, we corroborated the claim made by other scholars that 'proto-neoliberal' ideas existed in Hungarian society *before* the formal 'transition' in 1989–1990 (Bockman, 2011; Gagyi, 2015; Szalai, 1999). While a wider alliance of pro-market forces had emerged by the mid-1980s, we identified a group of 'radical reform economists', based at the FRI, as what, in Gramscian terms, can be called the 'organic intellectuals' of neoliberalism in Hungary (Gramsci, 1973: 5–23). Also known as the 'Dimitrov Square Boys', in reference to the Karl Marx University of Economics in Budapest (where the country's economic and political elite – including most of the above-mentioned Dimitrov Square Boys – received their schooling in neoclassical economics), the members of this group played a key role in reform debates in the 1980s through the articulation and promotion of certain ideas and practices about the transition. Many of them would later go on to play an active role in the neoliberal transformation of Hungary *after* 1989.

Third, we illustrated how the Dimitrov Square Boys envisaged the reconfiguration of the Hungarian economy in the late 1980s by analysing the contents of the influential 'Turnabout and Reform', described by one commentator as 'the key economic reform document of the decade' (Tökés, 1996: 203). As we noted, it contained many ideas of the transition, which later came to be considered as essential features of neoliberal transformation in Hungary and elsewhere, including the liberalisation of markets, privatisation of state-owned enterprises (although the latter was only implied in the document) and the pursuit of macroeconomic stability. Our general assessment of the programme was that it constituted what Harvey has described as a 'class project'. However, *contra* Harvey (and other radical critics of neoliberalism), we argued that the aim of the programme was not to 'restore' class power but rather to *retain* it, in order to save the Hungarian state from the organic crisis of state capitalism.

Fourth, and finally, we showed how the proto-neoliberal ideas developed in the document became increasingly popular following its publication in 1987, so that by the time of the formal 'transition' in 1989–1990, they had become accepted as 'common sense' within the democratic opposition, as well as among 'reform communist' leaders, with some of the latter preaching about the necessity of austerity at home, while offering Hungarian enterprises for sale to Western investors, 'even if … they became 100 percent foreign owned' (Grósz, cited in Bandelj, 2008: 115). In this sense, the perhaps greatest contribution of 'Turnabout and Reform' and the 'Dimitrov Square Boys' that put together the document, was to take what, even in the relatively liberal political environment of late Kádárist Hungary, had hitherto been considered renegade ideological and political positions – that radical market reforms had to be introduced *together* with political reforms – and made them mainstream in reform debates. This, in part, answers the wider conundrum of why Hungarian regime change in 1989–1990 took the 'passive' character that it eventually did. The downfall of the party-state was not met with any significant resistance by the ruling class because they had already changed their suits to the newly evolving order. Yet, while the political project of constructing neoliberal hegemony in the late 1980s was relatively smooth and consensual, attempts to consolidate a distinct neoliberal regime of accumulation after 1989 turned out to be much more uneven and contradictory (Fabry, 2009, 2011; Szalai, 2008; Tamás, 2007, 2008, 2010, 2014).

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Notes

1. The term is here taken from Holman (1998) to describe the dual shift from centrally planned economies under the rule of authoritarian regimes to a (free) market economy and parliamentary democracy in Eastern Europe and the former Soviet Union between 1989 and 1991.
2. Apart from the above-mentioned 'Fordulat és Refom', key texts include Híd-csoport (1990), Hieronymi (1990), Kék Szalag Bizottság (1990) and Kornai (1990).
3. Up until now, the insights of market reformers have received surprisingly little attention in the transformatology literature. Notable exceptions include Blejer and Corricelli's *The Making of Economic Reform in Eastern Europe* (Blejer and Corricelli, 1995) and Rádai's *Pénzügyminiszterek reggelire* (Rádai, 2001).
4. Established on 31 October 1956, during the heyday of the 1956 Revolution, the *Magyar Szocialista Munkáspárt* (MSZMP) was the ruling party of Hungary until its dissolution on 7 October 1989.
5. Following Mirowski (2013; 'Postface' in Mirowski and Plehwe, 2009), I do not claim that neoliberalism can simply be conflated with neoclassical economics. In fact, as history shows, neoliberalism draws on a variety of economic theories, including neoclassical economic

theory, German ordo-liberalism and the Chicago School of Economics (Dardot and Laval, 2013; Mirowski and Plehwe, 2009). As we shall see below, in the case of Hungary, the theoretical armour of neoliberalism drew on institutionalist *and* monetarist critiques of Soviet-style socialism.

6. While a detailed discussion of state capitalism theory is beyond the scope of this article, a critical review is provided by Van der Linden (2009). As for Cliff's thesis, over the years, it has been developed by others, such as Dale (2004), Harman (1988, 1990) and Haynes (2002).
7. For example, János Kornai in his classic, *The Socialist System* (Kornai, 1992), defines 'socialism' as a system characterised by the rule of a Communist Party guided by Marxist–Leninist ideology, in which the economy is dominated by public ownership and production is bureaucratically co-ordinated.
8. Indeed, in many cases, Stalinist parties seemed *disinterested* in the promotion of social transformations in the region. For example, in the case of Hungary, Seton-Watson (1985) noted, 'In the first months [following the end of World War II] it is a curious paradox that the reconstitution of these [bourgeois] parties was largely the work of teams of communist agitators who travelled around in Red Army vehicles' (p. 191).
9. Similar claims were made at the time by post-industrial sociologists in the West, such as John K. Galbraith (1967) and Alvin W. Gouldner (1979).
10. This point was also made by world-system theorists. For example, Andre Gunder Frank (1977) argues that ever since Lenin and Trotsky, re-integration with the 'capitalist' world economy had been a key policy goal of Soviet leaders, and this process strengthened in qualitative *and* quantitative terms in the decades following the death of Stalin. In Hungary, the world-system framework has, for example, been developed by Böröcz (1992, 1995) and Szigeti (2005).
11. From the early 1920s onwards, classical liberals and neoliberals were providing 'scientific' evidence that socialism was unworkable in practice and necessarily led to 'totalitarianism' (cf. Friedman and Friedman, 2002; Hayek, 1986; Kornai, 1980, 1992; Von Mises, 1951).
12. Hence, Cliff (2003: 56) argued that the ascendancy of Stalin constituted the final break with the Bolshevik Revolution of 1917, not the culmination of its goals:

    Why was the First Five-Year Plan such a turning point? For the first time the bureaucracy now sought the rapid creation of the proletariat and accumulation, in other words, as quickly as possible to realize the historical mission of the bourgeoisie.

13. The dangers that increasing 'bureaucratisation' of economic life posed to socialism had already been recognised by Oskar Lange (1970). Similarly, the founder of world-system theory, Immanuel Wallerstein (1984: 94), argued that the Stalinist bureaucracy realised 'the historical mission of the bourgeoisie':

    The very objective of socialism in one country – what I have designated as the mercantilist strategy of 'catching up' – involved the assumption by socialist parties of what was once upon a time thought to be the 'historic task' of the bourgeoisie – the primitive accumulation of capital, the destruction of the 'feudal fetters', the total commodification of all the factors of production. It is an historic fact of the twentieth century that the communist parties in power have done at least as much as transnational corporations to extend the domain of the law of value.

14. In 1937, a mere 13% of Hungary's foreign trade went to future Council for Mutual Economic Assistance (COMECON) economies. By 1952, this figure had increased to 71%. The USSR

was Hungary's largest trading partner, accounting for 29% of Hungary's foreign trade in 1952 (Janos, 2000: 235). The (negative) long-term impact of this eastward shift in foreign trade on the Hungarian economy is analysed in Köves (1985) and Köves and Obláth (1983).

15. Compare the Central Committee (CC)'s declaration on 'Initial directives of the CC of the Hungarian Socialist Workers' Party (HSWP) on the reform of the economic management system' (November 1965):

    The rate of growth of profit over a long period of time must become the basic measure and indicator of an enterprise's overall economic performance. In the future, under the conditions of the new economic mechanism and the new price system, the socialist enterprise's profit [sic!] will fulfil this function, since it is a synthetic indicator approximately expressing production performance and the level of demand satisfaction.

    In another document, 'Directives of the May (1966) Plenum of the CC of the MSZMP on the reform of the economic mechanism', the CC declared:

    The rate of increase in profit expresses in brief form all aspects of the enterprise's economic activity, including the degree to which its activities coincide with the wants and effective demand, that appear in the market. Profit then increases when material costs are reduced, the work force is better employed, the use of fixed and working capital becomes more effective, the enterprise produces a larger amount of popular goods, which can be sold at more favorable prices.

    Both documents cited in Bauer (1976: 16–17).
16. In line with this process, a number of other institutions formed their own research institutes in the second half of the 1960s, including the Central Statistics Office (*Gazdaságkutató Intézet*), the National Planning Office (*Tervgazdasági Intézet*), the Ministry of Foreign Affairs (*Konjunktura- és Piackutató Intézet*) and the CC of the ruling MSZMP (*Társadalomtudományi Intézet*).
17. The market reforms outlined in by the NEM were highly influential among reformers in the Soviet bloc. As Davies (here cited in Kovács and Tardos, 1992: 138) notes, the chief economic advisor to Gorbachev, Abel Aganbegyan 'was extremely familiar with, and strongly sympathetic to, the Hungarian type of "market socialism" [and] … The type of reform envisaged in 1987-8 for the Soviet Union corresponded in major respects to the reformed Hungarian economic mechanism after 1968'.
18. The official shift in foreign economic policy can be dated to 20 October 1977, when the CC of the MSZMP adopted a programme that prioritised a strengthening of ties with capitalist states in Western Europe over COMECON integration (Germuska, 2014: 272, 277–279).
19. By 1980, Hungary's gross convertible debt exceeded US$11.4 billion (Germuska, 2014: 286, Table 5). As Comisso and Marer (1986) note, the situation was exacerbated by the fact that '45 percent of the debt was in highly volatile short-term loans and 80 percent of the total currency-convertible debt outstanding in the early 1980s had to be repaid in five years' (p. 430).
20. On the Polish crisis, see Barker (1986), Garton Ash (1983), Harman (1988: 245–318) and Ost (1990).
21. Among the key members of this group, Szalai (1999) lists: László Békesi, Péter Medgyessy, Lajos Bokros and György Surányi.
22. In Hungary, the Kádár regime had effectively defeated any radical Left critique by 1972, when leading members of the small but theoretically vibrant group of philosophers and sociologists that formed part of the 'Budapest School' of Marxism (including András Hegedüs,

Ágnes Heller, György Márkus and others) were dismissed from their workplaces for their critique of Soviet-style socialism. In the West, the defeat of the Left was more gradual and took different forms, ranging from the *compromesso storico* of the Italian Communist Party with the Italian bourgeoisie from 1977 onwards, through the ascendancy of Thatcher in 1979 and the rightward shift of Labour (particularly pronounced after the defeat of the miners' strike in 1985), to the slow, agonising surrender of Swedish Social Democracy to neoliberalism throughout the 1980s (a process that was completed through the election of a Conservative government, led by Carl Bildt, in 1991).

23. Similar to elsewhere in Eastern Europe (except Romania and Bulgaria), the democratic opposition that emerged in Hungary in the 1980s was divided into two distinct ideological movements: a neoliberal and national–conservative camp.
24. With the notable exception of Tardos (born 1928), all of the new researchers at the Financial Research Institute (FRI) were relatively young at the time of the transition.
25. For a summary of the Bokros Package, see Andor (2000: 62–63) and Phillips et al. (2006: 597–598).
26. Among the FRI researchers, Kupa (January–March 1983), Bokros (January–May 1985) and Ábel (March–June 1985) participated in courses offered by the International Monetary Fund (IMF) at its Washington headquarters, while Surányi worked one-and-a-half years for the IMF as a consultant in the mid-1980s (Pogány, 1998: 43, fn. 175).
27. By 1987, Hungary's foreign debt exceeded US$18 billion – the highest among the Soviet bloc economies and the third highest in the world on a per capita basis (Fabry, 2009: 77, Table 1).
28. A highly ambitious reform communist, Imre Pozsgai (born 1933), had been a member of the MSZMP CC since 1980 and the head of the Patriotic People's Front (*Hazafias Népfront*) since 1982. While advocating for reforms from within the ruling MSZMP, he also harnessed good relations with the democratic opposition and participated at the Monor meeting (1985), as well as at the formation of the Hungarian Democratic Forum (*Magyar Demokrata Fórum* (MDF)) in September 1987 (on Pozsgay, see Tökés, 1996,: 217–245).

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