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Economists and Social Change:

Science, Professional Power, and Politics in Hungary, 1945-1995

A dissertation submitted in partial satisfaction of the

requirements for the degree Doctor of Philosophy in

Sociology

by

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TABLE OF CONTENTS

List of Tables

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ABSTRACT OF THE DISSERTATION

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I argue that Hungarian economists advocated liberalizing market reforms as a means both to shape the economy according to their theoretical presuppositions and to strengthen their profession. Using the literature from the sociology of professions and the sociology of scientific knowledge, I analyze the history of Hungarian economics from the end of the Second World War to 1995 through Party-state archival documents, secondary sources, and interviews. During socialism, economists promoted market reforms and linked these reforms to professional claims for new institutions, autonomy, expert authority, and political influence. Economists'

political connections allowed them to institutionalize their market economic ideas and become powerful actors in the transformation of the economy. While economists were powerful actors, the full realization of this transformation after 1989 paradoxically had the unintended consequence of destroying the very situation that allowed them to have a near monopoly over economic issues during socialism.

Chapter I
Introduction

> Just as our opinion of an individual is not based on what he thinks of himself, so can we not judge of such a period of transformation by its own consciousness; on the contrary, this consciousness must be explained. (Marx, Preface to a Contribution to the Critique of Political Economy[1])

One of the most significant events of our century has been the "fall of communism."[2] The political, economic, and social systems of an entire region have been fundamentally reorganized and reoriented. Scholars have provided many explanations for the fall, but one of the most important and certain has been that socialism failed economically. From this perspective, Communist Party leaders eventually realized that a socialist economy could not work and thus naturally agreed that a market economy was necessary (e.g., Berend 1990: 257; Révész 1990; Swain 1992: 32). It was the "victory of mundane economic realism" (Swain and Swain 1993: 223). These scholars have accepted as reality the consciousness of a time that saw severe economic problems as necessitating market capitalism. While they accepted this consciousness because it seemed to coincide with their own understandings of the economy, this acceptance has distorted our understandings of

[1] This quotation comes from Tucker (1978: 5).

[2] I put this phrase in quotation marks for several reasons. First, the fall of communism was not a sudden event, but rather significant changes in the practice and ideology of socialism had already taken place years earlier, which had undermined socialism in various ways. Many scholars have explored these processes, including, for example, Jowitt (1992), Róna-Tas (1997), and Seleny (1991, 1993, 1994). Second, the use of the term "fall" is political and normative, defining the events of 1989 within a Cold War discourse of anti-communism. Baudrillard (1994) analyzes the construction of the "illusion of the end" in discussions of post-1989 Eastern Europe.

socialism and post-socialism. Following the above quotation by Marx, I seek to explain this consciousness, which requires that I set aside questions about the nature of the economic problems and about the validity of Communist Party leaders' understanding of their economies, so that I can sociologically study the emergence of market ideas and market capitalism.

This dissertation is a critique of economic determinist arguments. The label "economic determinism" or "economic reductionism" has often been placed on the work of Marxists, particularly the work of "vulgar Marxists" who present the economy as the cause for all socio-historical change.[3] However, a wide range of scholars, both Marxist and non-Marxist, have presented economic determinist explanations for the changes of 1989. Such arguments present the economy as a directly knowable object, a reified actor that makes unmediated demands for social change. The global turn toward free market capitalism and against state intervention during the 1980s and early 1990s has further reinforced this economic determinism. Following this economic determinist narrative, most analysts have argued that the main obstacles to the natural emergence of market capitalism in Eastern Europe have been political leaders either blinded by ideology or interested only in maintaining their own power (e.g., Berend 1990; Lewin 1974: 197; Révész 1990: 61; Szamuely 1982, 1984; Wagener 1998: 6). Such determinist arguments, however, do not recognize the social groups involved in making claims for market reform, their interests, or their history. To understand the changes of 1989, one must understand

[3] I use the terms "economic determinism" and "economic reductionism" interchangeably.

the history of the relationship between the Hungarian economics profession and Party politicians. Since the beginning of socialism in Hungary after the Second World War, politicians and economists had been in professional conflict over their roles in the economy and their claims to legitimate knowledge about the economy. This dissertation is about this relationship and its consequences, both intentional and unintentional.

The nature of socialist politics and professionalization has also hidden this relationship between politicians and economists. As a result of the Party's control of the public sphere, economists sought to present their work as purely descriptive and removed from politics. Despite this apparently descriptive method, economists interpreted economic events within their professional economic discourse and conventions. Therefore, the knowledge of professionally trained economists and the knowledge of local economic actors, such as company managers, were very different. Hungarian economists had developed a tradition of case studies, in which they directly observed company activities and interviewed company managers and other employees to document the actual workings of the economy. Through this method, Hungarian economists presented local economic knowledge and professional economic knowledge as identical. For example, Kornai [1957] 1959 used this method to create an extremely interesting and innovative presentation of Hungary's economic problems in the 1950s. While he argues that he is describing "reality," Kornai interprets the managers' experiences within the language of Hungarian economics at that time. He speaks about the "economic mechanism" as a "system of transmission of interests operating through a number of gears" (ibid., 72). At another point, he describes the 1950s economy as "a coherent, unified mechanism" consisting of instructions, incentives, excessive centralization, and shortages (ibid., 215). Kornai made his analysis in the language of his profession, and his analysis was revolutionary because he and his fellow economists presented a new way of seeing the economy. Company managers and other employees lived the problems of a socialist economy and provided insight to economists about these problems, but economists created a new knowledge from this information. Though they appear similar, the knowledge of professional economists and the knowledge of non-economists were quite different.[4]

The descriptive, technical, and apolitical appearance of Hungarian economics also obscured the fact that economics was an oppositional discourse: economics was politics by other means. Within the Party, nearly every liberal political challenger was trained in economics. Economics provided an acceptable way to be oppositional, in contrast to making, for instance, political, nationalistic, or religious claims.[5] These political challengers had both political and professional interests. They sought to help their profession and privileged economic thinking as a trusted way to improve socialism. They also sought to undermine the claims of their opponents in the state. While economists presented themselves as purely technical experts, market rhetoric

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[4] In the 1970s and 1980s, however, managers were educated in economics, which meant that they could speak about company-level problems in the language of Hungarian economic science.

[5] Lewin (1974) also found this to be the case in the Soviet Union, particularly in mathematical economics.

also allowed political challengers and other economists to make powerful political and professional claims. Using interviews and archival data, I discuss the political meanings behind seemingly technical debates.[6]

Hungarian economists promoted market reforms to strengthen their profession. This might have seemed to weaken their profession by reducing centralized planning, an influential sphere of economic expertise. However, by successfully advocating market reforms, Hungarian economists actually strengthened their own profession. The interests of economists in market reforms emerged from both their past commitments and their contemporary situation. Since the 1950s, economists made political alliances with leaders who supported democratizing and market reforms, as well as increased support to the economics profession. Irrespective of whether they believed in these reforms or in markets, it was in economists' professional interests to support these agendas because they were the very basis of their alliance and their identity, allowing economists to gain professional institutions and status in the first place. Economists interpreted new phenomena within the context of these and other prior professional and political commitments and within their present socio-political context.

Economists promoted policies that included provisions to improve their own professional environment and that assumed economists were more qualified than

[6] Further undermining the arbitrary border between professionalism and politics, Simirenko (1982) has convincingly argued that Communist Party politicians should be considered professionals. These politicians had a professional organization (the Communist Party), control over professional qualifications by deciding who could enter and remain in the Communist Party, a body of expert knowledge (Marxism-Leninism), and an ideology of public service. Party politicians also had a monopoly over their work, which brought status, power, and relative economic reward.

other authorities to make policy, monitor the economy, and conduct economic research. For example, the New Economic Mechanism reform in 1968 produced thousands of jobs for economists, revolutionized economics training, established new journals and research institutes, and spread an economic perspective through required continuing education courses. Economic reforms extended economists' work into policy, reforms, administration, and analysis, which brought economists into professional competition with politicians for control of the economy. Struggles over reforms and economic policy were also struggles over the legitimacy of forms of knowledge and professional roles.

There was a clash between economists' relative short-term professional interests in market reform and their long-term interests in the socialist political structure, which had unintended consequences for the economics profession itself, as well as for all of Hungary. Socialism accords experts a significant amount of influence (Brint 1994; Djilas 1957; Gouldner 1981; Konrád and Szelényi 1979). Capitalism provides experts with more autonomy, but with less influence (Brint 1990, 1994). According to theorists of expert power, experts usually call for centralizing and anti-democratic reforms, which increase their influence (Brint 1994; Gouldner 1981; Konrád and Szelényi 1979). However, in the case of Hungary, economists increasingly called for reforms to decentralize the economy and for democratic reforms as conditions for a functioning market. I argue that they did so because such reforms would remove the dominating role of the Party and allow for more professional autonomy. I suggest that experts seek democracy in authoritarian countries because they want to expand their own influence. Similarly, experts in democratic countries seek to diminish democracy also to expand their own influence. Liberal democracy and monolithic totalitarianism both restrict professional influence. Paradoxically, the implementation of democracy and capitalism after 1989 in Hungary destroyed the very situation that allowed economists as a group to gain influence and call for democracy and capitalism in the first place.

To move beyond Cold War understandings of economic problems, market reforms, and expertise, the study of socialism and post-socialism requires a sociological study of both knowledge and institutions. The sociology of professions literature provides a framework for studying typical paths of professionalization and conflict between occupations over professional status, rewards, and work conditions. I extend this field by highlighting the possibility of professionalizing through policy and the existence of professional conflict between economists and politicians. Since sociologists of professions focus largely on the formal qualities of professional knowledge, I also incorporate the sociology of scientific knowledge (SSK) into my work to study the knowledge content. The study of the actual knowledge of both economists and politicians is essential for understanding the consensus in the 1980s that the market economy was a panacea for a wide range of problems. Following the methodology of SSK, I seek to avoid evaluating this knowledge as either true or false in order to focus on how the social actors themselves made such evaluations. I bring together the complementary fields of the sociology of professions and SSK, which have rarely been integrated.

Avoiding the evaluation of socialist knowledge has moral implications, especially in the case of Stalinist Communist Parties. The sociology of professions and SSK do not often deal with terror, purges, executions, or spying used to maintain professional monopolies or spread scientific knowledge. These sociological fields must be altered to include the apparently unprofessional means that politicians used to fight for professional turf. Does sociological understanding and the bracketing out of the truth of knowledge give sympathy to those who conducted political terror? Similar questions have also been brought up in relation to studies of the Holocaust. Some scholars have argued that historical explanations of the Holocaust normalize the horror by explaining it with ordinary historical causes.[7] I do not agree with this criticism. Authoritarian, oppressive tactics must be morally condemned, but this should not block a sociological understanding of the situation. Especially in the Stalinist period, it must be recognized that work and society continued. Understanding socialism and post-socialism requires a sociological, symmetrical study of the relationship between economists and politicians. The unwillingness to do so has resulted in a distorted understanding of the role economists and the economy play in social change.

The case of Hungarian economics can provide an understanding of economists' power in different systems: capitalist, socialist, and post-socialist. In Hungary, economists gained significant influence in policy-making due to the nature of the socialist form of governance and the extension of economic thinking and

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[7] See Maier (1988) for a discussion of these debates.

discourse throughout the polity. Hungary's socialist development differed from that of the other Eastern European countries and significantly differed from development in capitalist countries. Yet, the case of Hungarian economists' influence helps us to understand the causes and consequences of economic ideas and perspectives more generally.

Eastern European Studies

While conducting my research, I interviewed many Hungarian economists. These interviews were extremely interesting. Often, however, my interviewees would return to a standard narrative, which had many similarities to an outmoded model in Eastern European studies, the totalitarian model, and which obscured the actual professional life of economists. At the same time, economists' stories about their work often undermined this narrative; many inconsistencies arose, which brought to life exciting, neglected elements of socialist life. These inconsistencies have fueled my interest in Eastern European studies from the beginning.

The standard narrative was that the Communist Party after the Second World War eradicated scientific research in economics and replaced it with Marxist-Leninist theorizing that merely legitimated Party actions. Economists trained before 1948 lost their jobs, and the connection with the past was completely broken. With the death of Stalin in 1953, however, Hungarian reform economists began to conduct economic research and produced many innovative studies and theories. The narrative at this point bifurcates. One sub-narrative states that this small group of economists did legitimate economic research in isolation and experienced regular attacks from the Party for their ideas. In isolation, reform economists made progress toward learning about the economy and helped move the economy on the path of reform during times of destalinization. As a result of the lack of community and communication, however, Hungarian economic science was backwards and underdeveloped, and Party-state leaders never truly listened to them. The other sub-narrative states that by helping the Party-state these reform economists sold out and never practiced real science. The changes of 1989 brought the end of Party control of science and the renewal of Hungarian economic science.

In spite of the fact that totalitarian theory has been "beaten to death over and over again" (Comisso 1991: 87), this narrative evinces a totalitarian perspective. In the 1950s, the totalitarian school dominated the study of state socialism. The term "totalitarian" was first used in the West during the Cold War as a propagandistic and ideological attack on the Soviet Union (Lewin 1988: 3). Sovietologists then adopted this term as an explanatory, theoretical concept to understand the Stalinist system (e.g., Friedrich and Brzezinski 1956). These theorists saw totalitarian dictators as imposing a single power hierarchy and totalizing ideologies through terror, which led to an atomized, oppressed citizenry. After the death of Stalin, socialism changed in many ways, which the totalitarian model could not explain.

Eastern European dissidents in the 1970s and 1980s rejuvenated the totalitarian approach, by arguing that the Party-state completely dominated their countries and as a result civil society did not exist. They presented civil society as the antithesis of the totalitarian state and often defined civil society as the negation of the totalitarian state: "It [civil society] was not planned and not organized by the state; it was not vertically articulated; it was not centralized; it was not permeated by party control and ideology; it was a mixture of subsistence and market economy, and not a redistributive one" (Hankiss 1990: 94). Following this perspective, the narrative of the history of Hungarian economics presents the totalitarian Party-state as atomizing economists and destroying their science, replacing it with the totalizing ideology of Marxism-Leninism.

My interviewees undermined their narrative in many ways. In fact, many of the older economists actively did so in response to professional criticisms by younger economists and in response to my continued interest in the inconsistencies. Some of the events that emerged were that, for instance, even during the height of Stalinism, economic research was conducted. Some economists from the pre-1948 period and their students continued to practice economics in government agencies for decades. In the 1960s, reform economists studied for long periods of time in elite economics departments in the United States. Economists published their work in foreign journals and were highly esteemed by their foreign and domestic colleagues. Economists who were criticized by the Party found jobs with other reform economists in research institutions. Reform economists' ideas and works were well-known within the Party-state and directly influenced major economic reforms. I gained this and other knowledge in the margins of the economists' stories and from Party-state archives. By attempting to reconcile these inconsistencies with the standard narrative of Hungarian economics, I do not attempt to ignore the professional and personal suffering caused by Party officials. A reconciling is necessary because the persistent totalitarian view of socialist intellectual life has not allowed for the complex everyday, professional, and political life of economists to come to the surface.

This stubborn totalitarian narrative has made Eastern European studies a particularly difficult field in which to participate mostly because this narrative denies sociological approaches. There are many areas of Eastern European and Russian studies, though, that have moved beyond the totalitarian narrative. In the late 1960s, for example, many scholars revealed the politics and conflict within Party-states.[8] Skilling and Griffiths (1971) showed that the state was filled with interest groups, which formed alliances, creating a form of coalition politics. Hough (1969) studied the actual processes of policy implementation, which dispelled the idea that policy was implemented easily, but also showed the necessity of the Party to the economy. Similarly, bureaucratic-organization models looked at the role of organizations as social actors, which had institutional interests. Bureaucrats adopted their institution's interests and goals and formed alliances to further these. The political-conflict approach also revealed the combative nature of Soviet politics, but this conflict was dominated by factions within the political elite. Lewin (1988) also recognizes that "a civil society operating in the very fortress of statism – among broad layers of

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[8] Comisso (1991) has provided a very useful discussion of the different theories of socialist politics. I use many of her categories.

officials, political opinion makers, and the party apparatus – challenges conventional thinking about the Soviet state" (p. 80). The totalitarian model has been attacked from many sides.[9]

The Stalinist period remains particularly problematic for scholars, even while it is a central reference point for their work. According to many scholars, during Stalinism, the economic and political system worked moderately well because it was being true to its nature as a command economy and a Leninist party system (e.g. Kornai 1992; Walder 1995). Deviations from Stalinism weakened this system and brought its demise. However, based on recent research and on-going studies on Stalinism, the view is that Eastern European and Russian regimes were never totalitarian, but rather were corrupt, ill-managed, and arbitrarily oppressive during Stalinism in particular (e.g., Fitzpatrick 1999). At the same time, scholars have not come to terms with the totalitarian narrative directly. A danger of avoiding the totalitarian narrative is that one could just delete the entire role of the Party-state and examine private or everyday life without the role of political agents. The main problem is that it is difficult to reconcile studies that use totalitarian assumptions and those that undermine them.[10] In addition, due to the only recent opening of the

[9] Ethnographic and popular cultural studies have also moved beyond the totalitarian narrative. Of the many, there are Burawoy and Lukács's (1992) participant-observation in Hungarian and American factories, Lampland's (1995) work on the commodification of agriculture and village life, Pence's studies of socialist consumerism, Fitzpatrick's (1999) work on everyday life during Stalinism, and the many studies of popular culture, including those of Stites (1995).

[10] Kelly (2000) touches on the problem of reconciling models based on totalitarian and non-totalitarian assumptions, when she criticizes Fitzpatrick for going "too far" in her attempt to correct the image of an atomized and terrorized population (p. 33).

archives and the relatively small number of scholars in the area, there is a lack of evidence for many disciplinary assumptions. Since many areas have not yet been studied, one has to accept many unfounded claims, which appear logical on the surface when one accepts the totalitarian assumptions, but which probably will be brought into question after more research has been completed.

The totalitarian perspective is most persistent in histories of socialist economic science, which has had important consequences for understandings of the relationship between economics and social change in Eastern Europe. This perspective remains persistent because economists worked either within or beside the Party-state administration, which means that scholars cannot ignore the role of the Party-state in economic science. Eastern European studies scholars have generally accepted that socialist economics was a failure and it would always be a failure. As sociologists, we know that individuals understand the world through socially constructed categories, theories of causation, and perceptions of interests, values, and goals. To apply American economic theories of economic evaluation and failure, the terms of economic discussion in Eastern Europe had to be fundamentally reoriented. In addition, it must be recognized that the socialist polity provided the conditions for a relatively high-level of professional power and that economists played a central role in the cultural context within which economic policies and analyses were formed. To take into consideration these factors and create a sociological understanding of economic discourse and professional life, we must move beyond the totalitarian perspective in histories of socialist economics, while also recognizing the important role of the Party-state in economic science.

I do not claim to solve lingering problems with the totalitarian narrative, but I discuss them mainly to show the difficulties of studying Eastern Europe so close to the Cold War. I have applied sociological theories to my object of study in an attempt to move beyond Cold War understandings of the economy. I consider the emergence of an expert group, reform economists, who for many reasons gained influence over economic policy. I examine the conditions for their professional authority and professional power. To do so, I use the sociological literature on institutions and scientific knowledge to understand the emergence of the socialist economics profession, and I use theories of expert power to understand socialist economists' impact on the world. Therefore, I seek to unite institutional theories with theories of ideation and power.

Who are Hungarian Economists?

Before continuing, an explanation of the term "economist" is necessary. This is a difficult task because who was considered an economist changed over time. Occupational definitions do not work in this case because many people worked in economic areas without economics training and possibly had training in other professions, such as engineering, which gave a different perspective. Since there was no professional association for many years, we cannot use associational affiliation as a definition. Instead, I use the term "economist" as an actor's category; I define "economists" as those who defined themselves as such. Even though I quote Marx at the beginning of the chapter to argue against such approaches, I use this actor's category as a starting point for my analysis. Beyond the initial step, I seek to avoid understanding this group "by its own consciousness." Rather, I seek to explain its consciousness, related actions, and the consequences of these actions.

I study various groups of economists, but I focus on established and young emerging elite "reform economists" because they have played a central role in uniting the profession and making reform proposals. By "elite," I mean those economists who occupied leading academic, planning and administrative positions (Judy 1971: 209; McDonald 1992). The individuals in these positions changed over time, which had an impact on the economics profession and the economy more generally. Elite economists were in the position to influence the profession both by creating and maintaining professional institutions and by promoting professional economic ideas. Elite economists who promoted economic reforms through various means spread their understanding of the economy throughout the profession and institutionalized this understanding in policy. While I focus on elite reform economists, I also discuss the professional environment of different groups within the rank-and-file of the economics profession.

Previous Studies of Economics

Studies of Western Economic Science

Most histories of economic ideas present economics as the progressive unfolding of truth. According to these accounts, economists have gradually improved their understanding of the economy. These accounts suggest that, as economists better understand the economy, the economy increasingly determines their ideas. Historians of Western economic ideas usually begin their accounts by locating the origin of economics in Adam Smith's work (e.g., Ekelund and Hébert 1990; Niehans 1990).[11] In response to economic problems, economists accepted the ideas Marshall and neoclassical economics, then those of Keynesianism, and finally in the 1970s the new classical economics. Through such narratives, historians of economic ideas recreate the past as a unidirectional path toward present-day ideas. While these works helpfully lay out the important debates and ideas, they do not provide a sociological explanation for the emergence and closure of these debates. Since they do not explain the socio-historical conditions for economic debates, their accounts give the impression that the economy drives the progress of economic science.

Some of the most famous studies of economics have been rhetorical studies, most notably the work of Donald McCloskey. McCloskey (1985, 1994, 1995) uses rhetorical analysis to deconstruct the rhetorical devices economists use. According to McCloskey, economists create explanations, or allegories, consisting of points of view, style, appeals to authority, metaphors, and other rhetorical means. In

[11] Yonay (1998) discusses this historical progression.

economics, metaphors can be models, laws, equations, or concepts, which link two conceptual domains. For example, the aggregate production function suggests that getting food is like a mathematical function, like a curve on a chalkboard (McCloskey 1994: 329). By showing economists' rhetorical tools, McCloskey seeks to demystify economics.

Mirowski (1989) also looks at the use of metaphors in economics. He examines the way that economists adopted and further developed the conceptual framework of nineteenth-century physics. In the 1870s, economists appropriated many physics metaphors, which became the basis for a new theory of value and a new kind of economic science. However, this appropriation led to many problems because economists did not completely adopt the conceptual system of physics. As a result, economists had to graft classical economic ideas onto this conceptual system to cope with inconsistencies. Furthermore, physics soon fundamentally changed its conceptual framework, while economics kept the original antiquated, inflexible framework. According to Mirowski, the continued use of this framework has restricted economists from following many avenues of innovation.

McCloskey and Mirowski are part of a larger group of economists interested in a renewal of economic methodology (e.g., Backhouse 1994; Brown 1994; Henderson, Dudley-Evans, and Backhouse 1993; Klamer 1987). This group uses rhetorical analysis to criticize economic science and argue for its reform. For example, Mirowski suggests the need to reconstruct economics when he claims that economists did not complete the mapping of nineteenth-century physics onto the field of economics and thus caused neoclassical economics to be scientifically flawed.[12] Conceiving of the social organization of economic science as a market, McCloskey contends that certain theories have become monopolies and calls for a libertarian economics profession with open discussion of ideas (Mäki 1995). According to Mäki, McCloskey recognizes that economic truth must arise from social and moral constraints that dictate "trustworthy" truth, but at the same time he wants an economics profession without constraints. Through rhetorical studies, these economists argue for reforms of economic methodology.

Rhetoricians of economics, however, cannot explain why some scientific ideas succeed and others do not because they only examine accounts made by scientists. To explain the closure of controversies, they would need to analyze social groups with competing interests, unequal resources, and different degrees of influence. As Shapin (1988) has argued, causal explanations are needed to explain why controversies end (p. 542). Yonay (1993, 1998) improves upon the rhetorical approach by incorporating a sociological account. In his works on early twentieth-century American economics, Yonay uses the sociology of scientific knowledge to study the controversies between neoclassical and institutionalist economists and their closure.[13] While he essentially creates a rhetorical analysis by examining only

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[12] For a critique of Mirowski (1989), see Henderson (1995).

[13] Hands (1994) has suggested an economics of scientific knowledge (ESK), but does not discuss an economics of economic knowledge specifically. Within his cogent description of SSK, Hands points out the quasi-economic interests referred to in many SSK works, such as in Latour and Woolgar's (1979) use of the term "credit" and Knorr-Cetina's (1981) "exchange strategy" theory. He suggests that economists could produce a more systematic study of science than sociologists have, but he warns of the many epistemological problems in store for economists.

economists' arguments in professional journals (Yonay 1998: 27), he seeks to explain the closure by referring to the ability of neoclassical economists to create a powerful network of allies and make convincing scientific claims.[14] These networks included economic events, facts, logic, social needs, philosophical ideas, political power, personal goals, professional interests, and many other allies.[15] Yonay shows that the economy does not speak for itself, but rather that scientists interpret the economy for others and convince others of the validity of their interpretations. While this approach does allow the study of the ways economists mediate between the economy and economists' allies, Yonay still cannot explain why certain ideas are accepted, except by stating that the winners had stronger networks than the losers. The study of other allies, such as the government, funding processes, and professional organizations would give a material grounding to his argument about rhetoric.

Several historians have studied the American economics profession. A. W. Coats (e.g., 1960, 1961, 1993) has been the most prolific scholar in this area, while his most innovative work has been in the documentation of the internationalization of American economic science (1986, 1996). From a different angle, Furner (1975) studies the history of American economics and explores its intensely conflictive professionalization that centered around the dichotomy of advocacy and objectivity.

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[14] Yonay (1998) does recognize that he should also look at the role of the government, funding, and other organizations (p. 27).

[15] Yonay creates a thoroughly Latourian analysis, in which networks consist of ideas, objects, institutions, and individual people. For a discussion of such networks, see Latour (1988).

Taking the same object of study, Ross (1991) argues that a broad historical consciousness of American exceptionalism in the nineteenth century drove the professionalization of economics.

Within historical studies, the most important for this dissertation is that of Bernstein (1990) because he shows the role of the state as a major actor in the development of American economics in the 20th century.[16] According to his account, while the U.S. government prepared for war in 1914, it also mobilized professionals, including economists, for the war effort. To best utilize the economics profession, the state ordered the American Economics Association (AEA) to classify economists, clarify subfields, set standards of competence, centralize the coordination of research, and organize curriculum reform. In addition, the AEA influenced economics internationally by promoting curriculum reform and rebuilding other countries' library collections with new American economics texts. As a result, the demands of the U.S. government shaped economics disciplines and knowledge worldwide. In general, these historical studies differ from sociological studies in that these historians do not make inter-professional or cross-cultural comparisons.[17] Furthermore, these historians do not use their work for explicitly theoretical purposes. Historians have, however, shown the historical contingencies and

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[16] Bernstein (forthcoming) has examined the history of the close connection between the state and the American economics profession throughout the twentieth century. Furner and Supple (1990) have compared the relationships between the state and economists in the United States and Britain.

[17] Recently, Coats (1993) has sought to create a sociology of economics, but he still takes a historical approach, as opposed to that of sociology.

historical consciousnesses that shape professionalization, as well as the important role of the state in these processes.

Recently, sociologists have also become increasingly interested in the Americanization of economic science. Aslanbeigui and Montecinos (1998), Babb (1998), Coats (1996), and Valdés (1995) have explored this topic through a variety of case studies. These authors not only study the mechanisms of Americanization, but also the consequences of these processes. In his study of the importation of the Chicago School of economics into Chile from the 1950s, Valdés (1995) presents the mechanisms by which the American government exported conservative American economic science to Chile. The institutionalization of these foreign ideas created a "revolution" in Chilean society. Babb (1998) rightly criticizes Valdés' work because he emphasizes the role of the American government and neglects those of the domestic actors. She calls for a more complex approach that captures the interactive process between foreign and domestic actors. In her study of Mexican economics, Babb explores the way economics was professionalized in Mexico and asks why economic expertise in developing countries becomes internationalized. These scholars have provided powerful ways to understand Americanization structurally, by examining the institutions that recreate American economic science in other countries. However, the knowledge held by economists is not examined, leaving the impression that domestic actors eventually adopt American science in its entirety and give the same meanings to economic concepts as American economists do. In contrast, I argue that domestic economists must fit American knowledge within their worldviews and ideas, as well as their political context, which often has many unintentional consequences.

These authors study important aspects of economic science: economists' ideas, their rhetorical devices, their networks of allies, and their social impact. However, none of these authors has brought these aspects together into a sociology of economic science, which requires a study of professions, scientific knowledge, and the state. Without all of these fields, the emergence of economic debates appears sudden and gives the impression that the economy initiated and drove these debates. We need to see that such impressions are the creation of social actors with interests, a history, and knowledge formed through social interaction.

Studies of Soviet and Eastern European Economic Science

Many scholars of socialist economic ideas have presented histories as formulaic as those about Western economic thought.[18] According to these histories, Stalin imposed his version of Marxist-Leninist political economy on the Soviet Union and then later on Eastern Europe. In response to economic problems and the death of Stalin, economists recognized the needs of the economy and sought to implement reforms to meet these needs. Over time socialist economists came to better understand the economy and realized that a market economy was necessary.

[18] There have been many articles on Soviet economic ideas (Miller 1953; Kaufman 1953; Zauberman 1963; Dobb 1960; Sutela 1990, 1991). Wagener (1998) has edited a book of histories of Soviet and Eastern European economic thought. Milenkovitch (1971) has discussed economic ideas and policies in Yugoslavia. Szamuely (1982, 1984), Szamuely and Csaba (1998), and Arva (1989) have described the history of Hungarian economic thought.

Political leaders were either blinded by their ideological commitments or their self-interested desire for power, which led them to condemn the ideas of economists. In these histories of socialist economic thought, as well as in those of Western economic thought, economists progressively gained the ability to understand the economy. The economy is then considered the main force that drives the emergence of economic ideas.

This view is bolstered in studies of socialist economics by particular research methods. Scholars of socialist economics primarily use published economics articles, instead of archival materials, as evidence for these debates. Since the socialist economics profession had a restricted public sphere, these authors can only document the few public debates. With the apparent dearth of debate, the economy is seen as driving economic science and politicians as curtailing it, rather than considering the economy as mediated by the professional knowledge of politicians and economists. Archival materials provide necessary documentation of these debates and the professional interactions of politicians and economists.

Kovács (1991, 1992) goes beyond documenting socialist economic ideas. His primary aim is to show that Eastern European economists, contrary to their liberal economic rhetoric, are not economic libertarians. He has "compassionate doubts" about the scientific nature of Hungarian economic science and shows that Eastern European economic thought has long been a form of "deformed" liberalism. According to Kovács, Hungarian economists were not scientific because they did not consciously adopt Anglo-American economics. Instead, they developed a deformed liberal economics "by doing" rather than "by learning," and they continue to support state intervention in the economy.[19] Kovács uses social causes to explain the failure of Hungarian economics to be scientific: Eastern European economists had special interests in not being libertarian. Those without these interests were naturally libertarian. Kovács seeks to evaluate Eastern European claims to liberal economic ideas and science.

While Kovács evaluates these ideas and explains the obstacles to the libertarian thought, I ask why market economic ideas emerged in the first place, particularly within the Stalinist-type economies of the 1950s. My project requires that I avoid comparing Hungarian economics with Western capitalist economics and, instead, examine the specific political and cultural meanings of economic terms in Hungary. For instance, on the face of it, "second economy" meant economic activity outside state-owned enterprises, but it also meant democracy, equality, freedom, entrepreneurship, and greed. To understand economic meanings and practices, as well as the pervasive adoption of Western economic ideas, I use archival documents.

In contrast to previous scholars, Péteri (1991, 1993, 1996) uses archival materials, which allow him to document the ways Party politicians controlled Hungarian economic science. He has primarily focused on the 1950s and covered a range of topics related to Party control of science, including the control of statistical data, the Sovietization of the Academy of Science, and Party-state control of

[19] In fact, as I discuss in chapter four, many economists read international economics literature and studied in American universities.

economic qualifications. Péteri provides essential information about the early means of political regulation, which I cite throughout this dissertation. While he focuses on this regulation, I emphasize the scientific life that took place within political constraints. Péteri views the Soviet system as a monolithic, totalitarian imposition on Hungary, which leads him to the view that during Stalinism no real science was practiced. Péteri (1996) also finds that an enlightened state-socialist political power controlled economics even after Stalin died (p. 374). Furthermore, Péteri argues that academic economists who worked on government reform committees did not exercise any influence (ibid.). From my research, however, it is clear that economists did have a significant influence because their reform ideas were implemented and their discourse and perspectives were adopted by politicians. While Péteri focuses on the political intervention in economic science, I explore the scientific activity and political influence of economists within political constraints.

McDonald (1992) has shown the close relationship between Hungarian economists and politicians without focusing on these political constraints and without evaluating the veracity of Hungarian economic knowledge. According to McDonald, economists successfully promoted "utopian" economic ideas at different times to support challengers to the Party leader. By "utopian" economic ideas, he means "any attempt to impose a comprehensive economic scheme from above" (ibid., vii). These utopian ideas had not been empirically tested, but they existed because a faction of the political leadership supported them. When political competition arose within the Party, economics became utopian and political leaders supported it. McDonald's approach opens Hungarian economic knowledge to sociological research because he sets aside the question of whether this knowledge was true and focuses on its social uses.

His focus on the consequences of periodic factionalism within the Party, however, means that he does not consider the continual conflict in the Party-state. This continual conflict is missing from his work in part because he does not use archival sources. As a result, he can only study the presentation of economic debates in the restricted public sphere. McDonald argues that before 1987, "the Party-state was then united and could thus ignore intellectual criticism. Intellectual rejection and new economic ideas meant little until the emergence of Mikhail Gorbachev in the Soviet Union and competitive political interests in Hungary" (ibid., 51). To understand the creation of consensus around economic issues, one needs to recognize the continual debate and continuous economic research within the Party-state.

Economists became an influential force within the Party-state because they were part of a profession, which McDonald does not consider systematically. Professions unify individuals around a professional identity, centralized training, qualifications, and a body of knowledge, allowing them to make powerful arguments and proposals. In his study of Soviet economists, Judy (1971) has shown the connections between institutions and ideas. According to Judy, Soviet economists were a heterodox group consisting of different factions or "opinion groups." Judy found that these factions were defined by age, mathematical ability, and institutional affiliation. These factions formed alliances with others, creating a kind of coalition politics. In his work, Judy makes an important link between ideas and social institutions.

However, Judy did not recognize the ways that Soviet economists might become a unified, more homogeneous group and thus a powerful influence in policy-making because he was writing in the late 60s and early 70s. Judy (1971) does recognize "a slow process of 'creeping economic rationality,'" that the older, more Marxist-Leninist, economists were retiring, and that the younger economists criticized Soviet political economy (pp. 249-250). At least in Hungary, political leaders became increasingly economically literate during and after the period in which Judy wrote. In addition, since he was writing in the 1970s, Judy saw analytical economics as compatible with rational humane socialism but incompatible with the small minority power of the Communist Party (ibid., 250). While Hungarian economists argued in the 1960s that socialism and capitalism were compatible, by the 1980s they contended that socialism could not be reformed and capitalism was required to build an efficient economy. Judy studies the social bases for economic knowledge, but does not recognize the possibility for a unified economics profession, which would later play a highly influential role in policy-making.

Hungarian economists used professional ideology and strategies to gain influence in policy-making. This influence has been recognized by several scholars. Lewin (1974) studies the connection between economics and politics by examining the political nature of Soviet economic ideas. In 1957, the Soviet leadership began to encourage economic science. According to Lewin, with the emergence of politically acceptable mathematical economics, economists had a cover under which they could criticize the Party-state. Economists then called for democratization in the economic sphere, which could eventually lead to calls for political reforms. Lewin thus points out the political character and possible political consequences of economic ideas.

While Lewin suggests that economists have a significant social and political influence, Seleny shows this influence very powerfully. Seleny (1991, 1993, 1994) describes how economists redefined the economy. While there was always private sector activity in Hungary, Hungarian economists introduced the term "second economy" in the late 1970s. The laws in the 1980s to sanction the second economy significantly changed both people's actions and their thinking about the economy because these laws legitimated private economic activity and essentially criticized large socialist companies. The legalization and expansion of the second economy undermined the authority of the Party in the economy. Rather than relying on secondary information, Seleny uses interviews, which allow her to document economists' efforts to redefine the economy. However, she focuses on the ways economists transformed discourse, which leads her to the same problems rhetoricians have: she cannot explain why politicians actually accepted these transformations. In spite of this focus on discourse, she clearly shows how economists radically changed the Hungarian economy and society.

Scholars of Soviet and Eastern European economics have contributed to the understanding of the role of economists in social change by describing economic ideas, linking these ideas to professional institutions, showing the political consequences of economic ideas, and exploring the strong connections between politicians and economists. However, many of these studies have been hindered by a lack of archival research. This lack encourages economic determinist perspectives because without archival research the economy appears to determine the emergence of debates. Even when scholars have used archival data, they have focused on the constraints on professional practice, rather than on the practice itself. I use materials from the archives of the Communist Party, State, Academy of Sciences, and Economics University, as well as secondary sources and interviews with economists, to study the history of Hungarian economics. To further undermine economic determinist approaches, I present economists as important actors in social change, who can be profitably understood through the sociology of professions and the sociology of scientific knowledge, to which I now turn.

How Hungarian Economics Developed

Sociology of Professions and the New Institutionalism

I seek to understand how economists who promoted market reforms could successfully claim professional authority over economic issues in a socialist state. Sociologists of professions have worked to explain the causes and consequences of such professional authority more generally. There are several schools of thought on how professions gain authority. The earliest versions saw professions as succeeding because of the truth of their knowledge claims and their orientation toward ethical behavior and social progress. These functionalist sociologists documented the associations and ethics of professions, forming a ideal-typical taxonomy of professions and generalizing about a standard path to professional status (e.g. Carr-Saunders and Wilson [1933] 1954; Wilensky 1964). In the 1960s and 1970s, sociologists questioned the established belief that professions were a benevolent force in society. These sociologists reinterpreted associations and ethics as self-interested tools used by professionals to gain status and monopolize segments of the labor market (e.g. Berlant 1975; Freidson 1970; Larson 1977). According to this monopolist approach, occupations try to make their knowledge and skills scare resources, which they can then exchange for money, social prestige, and autonomy in the workplace (McDonald 1995: 9-10). Professionals maintain the scarcity of their service by regulating entrance into the profession, which means the regulation of professional education and certification (Freidson 1986). In many cases, the state has given professions the right to control their educational and credentialing processes. This monopoly not only unjustly benefits professionals, but also has negative consequences on society. For example, doctors use their monopoly over medical practice to subordinate other occupations, such as nurses and alternative medical practitioners, and, in the overwhelming majority of cases, can avoid accountability for their actions (Freidson 1970).

At the same time, those outside the academic community also came to view professions as unjust monopolies. During the 1970s, the U.S. Justice Department filed suits against professional groups for anti-competitive practices (Haskell 1984: xvi). Suits were filed against such organizations as the American Institute of

Architects and the American Medical Association, producing a "crisis of the professions." Within this new historical context, sociologists began to consider professionals as losing authority and status. The theories of proletarianization (e.g. Derber 1982) posit that professions as a group are disappearing due generally to developments in capitalist production, while theories of deprofessionalization (e.g. Haug 1973, 1977) find the cause of this disappearance in the decreasing deference to professional authority. These theories of deprofessionalization emerged in part because of their historical context.

More recent studies have sought to provide more complicated understandings of professional authority than those presented by functionalist, monopolist, and deprofessionalization theorists. These more recent works have shown that professions are not unified entities that homogeneously or autonomously experience social change. Freidson (1984, 1986) emphasizes intraprofessional competition in which professions contain subgroups with different interests, demands, and perspectives.[20] Some subgroups may come to dominate others within the profession and, in a sense, deprofessionalize them. Since professions consist of groups with different interests, they cannot make unified claims either as a broad group or as a single profession. Similarly, Abbott (1988) studies interprofessional competition. According to his model, professions compete for turf within an equilibriating system of professions and can resolve these conflicts through a variety of means, such as by

[20] Freidson's approach is similar to that of Bucher and Strauss (1961), who argue that professions are "loose amalgamations of segments pursuing different objectives in different manners and more or less delicately held together under a common name at a particular period of history" (p. 326).

gaining full jurisdictions, sharing them in different ways, or losing them altogether. Freidson and Abbott argue that changes – both successes and failures – have always taken place within professions.

In this dissertation, I use both these understandings of intraprofessional and interprofessional competition. As I discuss in chapter two and chapter six, the Hungarian economics profession was highly stratified in the immediate postwar period (1945-1953) and again in the post-1989 period. In these periods, certain groups of economists gained control over the profession and had high levels of professional autonomy and influence. In contrast, other economists of the rank-and-file were subject to the decisions of elite economists and were relatively deprofessionalized. The focus on intraprofessional processes highlights economic science as just one area of intra-Party conflict even in the Stalinist period. In chapter three, I use Abbott's work on interprofessional conflict. I discuss the emergence of Hungarian reform economics within professional conflict with other occupations, specifically Stalinist political economists, controllers, and Stalinist economic politicians.

While Freidson and Abbott's theories provide valuable insights into professional life, these theories must also consider the role of fundamental social change on professionalism. Both professionalization and deprofessionalization have occurred in countries during revolutions. Hungary experienced two "revolutions," the Stalinist revolution after the Second World War and the capitalist-democratic revolution after 1989. Political and social change can reorganize the professional system in fundamental ways. Abbott (1988) recognizes that he presents his system of professions as unchanging from the Industrial Revolution to the present: "I have . . . generally assumed that the competition model holds 'in the same way' throughout the period discussed" (p. 317). This assumption allows Abbott to explore the mechanisms of professional development, but he then artificially considers politics only as mediated by the system of professions rather than as a direct factor in professional work and development. Both he and Freidson separate professions from politics, considering politicians, political parties, and the state as outside the professional system, functioning only as means to gain legal monopolies over jurisdictions, such as through state-sanctioned credentialing or licensing.[21]

While the system of professions retains its competitive structure during revolutions, the role of politics can no longer be considered outside, merely mediated by the system. During revolutions, political leaders seek to redefine and reorganize professionalism in line with their vision of the new society. In order to establish this new society, they work to break down professional authority and loyalty, removing possible obstacles to political loyalty and rapid social change. They have many resources, including the control of violence, administrative power, and finances, to enforce their system. Furthermore, in some cases, such as Hungarian economics, political actors become competitors for professional turf, arguing that they rather than economists should make economic policy and other economic decisions. The

[21] Krause (1989) has criticized Abbott for ignoring the direct influence of the "macrolevel" of states, political parties, and sectors of capitalism.

system of professions must be integrated back into its political context to understand both the impact of the non-professional sphere and the impact of professions on politics and society.

Many sociologists of non-Anglo-American professions have shown that the role of the state and politics is essential to professionalization (e.g. Babb 1998; Cleaves 1987; Jarausch 1990; Torstendahl and Burrage 1990), including that in socialist countries (e.g. Bailes 1978; Jones 1991; Lampert 1979). These professions are often state-centered, having state actors as their constituencies and employers. In her study of Mexican economists, Babb (1998) emphasizes that professions require constituencies with resources in order to make a living and develop an institutional life.[22] Babb shows that monetarist economists emerged in Mexico because of the new influence of the international financial community as a constituency. The Mexican economics profession was divided into economists with a monetarist orientation and those with a state interventionist orientation because each group had different constituencies. In the case of Hungarian economists, a strong political faction in the Communist Party provided reform economists with monetary resources, new research institutes, beneficial university reforms, new journals, and a better research environment. This political faction also legitimated the ideas of reform economists as the correct ones. As a result, this political constituency

[22] Babb (1998) develops her theory of constituency from Abbott's ideas about professional "arenas" and "audiences" (p. 7)

provided resources to a group of economists that allowed for their professionalization.

More specifically, Babb examines why the Americanization of Mexican economics has occurred. To make her explanation, Babb uses DiMaggio and Powell's (1991) notion of "mimetic isomorphism," which is "generated by uncertainty and the security that comes with emulating the apparent success of other organizations within an organizational field" (Babb 1998: 132).[23] The uncertainty surrounding international financial institutions and the resource dependence of the Mexican government drove political and government constituencies to search for stable institutional solutions, which meant adopting American institutions. In the area of finance, the central bank of Mexico participated in an international organizational field of central banks, with which it shared a conservative financial perspective and standards of behavior in part because many of its employees studied economics in the United States. The central bank encouraged the development of American-style economics training in Mexico because it would show that Mexico was serious about its financial affairs and thus would help reduce uncertainty in international financial markets.[24] Furthermore, the emulation of apparently successful American professional organizations gave Mexican economists increased

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[23] Organizational fields are "those organizations that, in the aggregate, constitute a recognized area of institutional life: key suppliers, resource and product consumers, regulatory agencies, and other organizations that produce similar services or products" (DiMaggio and Powell 1991: 64-65).

professional authority over economic issues. "Mimetic isomorphism" provides a powerful way to understand Americanization more generally.[25]

In contrast to Babb's study of the internal history of Mexican economics, Valdés (1995) uses American archives to examine the importation of the Chicago School of economics into Chile from the 1950s. To counteract the predominately socialist economic ideas in Chile, the American government sought to introduce conservative American academic economics. From the mid-1950s, Chilean students were sent to the University of Chicago to study economics. These students assembled an economic program based on the ideas of the Chicago School for implementation in Chile after the military coup in 1973. The Chicago-trained economists also filled high positions in the government and the university, further spreading their ideas. The institutionalization of these foreign ideas created a "revolution" in Chilean society.

Babb (1998) rightly criticizes Valdés' work because he "emphasizes the agency of foreign actors and the near passivity of domestic ones" (p. 25). However, their different findings are the logical result of their research sources. Babb

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[24] This idea of a ceremonial response to uncertainty comes from Markoff and Montecinos (1993), but Babb (1998) goes further: "several cross-national studies of recent liberalizing policy reforms in developing countries suggest that the results of these technocrats' presence in government have been far more than ceremonial: rather, it has affected significant changes in the way Third World economies are run" (p. 35).

[25] Meyer et al. (1997) take this understanding of isomorphism to a higher level, arguing that once countries identify themselves as a rationalizing nation-states they will adopt an enormous range of similar institutions that now are part of "world culture." As with other organizational sociologists, these sociologists focus on the high level of similarity among nation-state structures worldwide. While their argument is compelling, they do make broad generalizations across a large number of very different cases and do not provide a means for understanding how this world culture emerged or the power dynamics within the world system.

emphasizes the domestic because she uses domestic sources, while Valdés emphasizes foreign actors because he focuses on foreign sources. Valdés and Babb explore two important aspects of institutional and ideational isomorphism: the coercive and the voluntary.

In the Hungarian case, isomorphism happened in different ways at different times. Immediately after the Second World War, Hungarian economists created Soviet-style professional institutions. This isomorphism was more coercive than in the Mexican case. After the death of Stalin in 1953, reform economists emerged and created new professional institutions. Since American professional institutions were still seen as "bourgeois" and ideologically impossible to introduce, Hungarian economists recreated the institutions from the pre-war economics profession. These institutions helped them to avoid the many political uncertainties of the time and the oppression that economists had suffered during Stalinism. Finally, from the 1960s, Hungarian economists, similar to their Mexican colleagues, sought to introduce American-style institutions and knowledge. Therefore, the Hungarian profession at this point merged with international Americanizing trends. However, this situation was politically complicated. From the mid-1950s, the American government sought to undermine socialism through science and, in particular, scholarly exchanges. Economic science, and especially mathematical economics, was seen as a gateway science to import American political and consumer values. An analysis of this internationalization requires an analysis of both the domestic and foreign sources, placing economic science within the context of the Cold War. I have used the archives of the Ford Foundation to show the intentions of the American government within Hungary, while I have used the Hungarian Party-state archives to document the Hungarian government's intentions.

The sociology of professions literature provides a framework for explaining the institutional development of the Hungarian economic science and the ways that reform economists gained professional authority. Through studying their interprofessional and intraprofessional conflict, we can understand how economics developed within an already existing professional system. An analysis of institutional isomorphism allows for an explanation of how specific institutions were chosen and how this isomorphism provided economists with increased authority. As with studies of other state-oriented professions, we must include the role of the state and political constituencies in providing resources for professionalization. Finally, we must take into account the impact of fundamental social change, which can alter the very bases of professionalism.

Sociology of Scientific Knowledge

Most sociologists of professions have ignored the content of professional ideas and their social uses, which does not allow them to answer important questions, such as why Party leaders agreed that a market economy was necessary in the late 1980s. These sociologists have examined the formal qualities of knowledge, specifically the level of abstraction necessary for successful professionalization (e.g. Abbott 1998; McDonald 1995; Wilensky 1964). They focus on the form of knowledge because they are creating a general model of professionalization and cannot generalize about the content of the knowledge. Yet, knowledge influences professionalization and politics, and professionalization and politics influence knowledge. Without understanding economists' knowledge, one cannot understand why there was a growing consensus under socialism that a market economy was a panacea for Hungary's problems, and one cannot understand the social and historical impact of this consensus. Instead, this consensus appears as a direct response to economic reality, which economists argued it was.

Since the 1950s, economists made political alliances with leaders who supported democratizing and market reforms, as well as increased support to the economics profession. These alliances were premised on reform economists' commitment to such reforms. Within this political context, economists built their specific economic concepts and theories. Following Douglas' (1986) and Swidlers' (1986) work, I view reform economists as developing their theories and paradigms through a process of "bricolage," in which they put together already existing concepts, scripts, and models in ways that seem legitimate to them. In the sociology of scientific knowledge (SSK), sociologists have long viewed scientific production in this way. In her research on laboratory practices, Knorr-Cetina (1981) argues that scientific innovation and research occurs through analogy and metaphor.[26] Scientists innovate by applying an analogy or a metaphor to their local context. As with Kuhnian paradigms, analogies and metaphors suggest ways of acting and acceptable

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[26] Lakoff (1980) also investigates metaphors and perception.

solutions. In addition, since analogies and metaphors provide solutions that have already proven to work in other contexts, scientists see transfers of knowledge through analogy and metaphor as less risky than other means of innovation.[27] For example, as Knorr-Cetina describes, a scientist told another scientist that a sample resembled sand, which led the first scientist to make experiments based on the sample being like sand and used the resources within his particular lab. Analogical reasoning allowed the scientist to transfer knowledge about sand to the context of his laboratory and his particular scientific topic, thus recontextualizing knowledge about sand.

In his A Social History of Truth, Shapin (1994) examines the creation of scientific authority and trust through the mobilizing of existing cultural resources, documenting another form of bricolage. In the new realm of experimental knowledge in the seventeenth century, natural philosophers had difficulty establishing authority that would allow for the production and acceptance of experimental knowledge. Natural philosophers had to trust other people to obtain already created knowledge, such as from travelers, and to help the natural philosophers create new knowledge, such as through laboratory assistants. In order to create experimental knowledge, natural philosophers had to have knowledge not only about the natural world but also about the social world. To decide who could be trusted, natural philosophers used their available cultural resources: gentlemanly values, chivalry, and humanism. By using these resources, natural philosophers created a perception of the world that

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[27] In a similar fashion, Ben-David (1960) studies innovation through cross-disciplinary transfers.

appeared natural to them, which formed their own identity and maintained the social order.

Bricolage helps to explain cultural innovation, but everyday scientific practice also requires interpretive work. Much of SSK's initial inspiration came from the work of Kuhn ([1962] 1966). While Kuhn discusses paradigms in several different ways, a paradigm is generally an exemplar, an actual example of 'good' scientific research, such as an experiment conducted by Newton. According to Kuhn, an exemplar indicates a set of laws, theories, applications, and instrumentation (ibid., 10). When a group shares a paradigm, it shares a view of the world, which includes common rules and standards for scientific practice.

While sociologists still recognize that scientific communities are unified around practices, training, and categories (Collins 1985; Fujimura 1988; Knorr-Cetina 1981), they have since found Kuhn's concept of paradigm problematic. Even with a shared paradigm, scientists still must interpret their laboratory experiences. For example, in his study of scientists' laboratory discourse, Lynch (1985) shows the negotiations made about artifacts to figure out if they are "usable." Lynch argues that scientists do not automatically agree because of their common socialization, but rather scientists reach agreement through conversation. During these conversations, scientists modify their accounts of objects in an attempt to reach agreement. The rules of experimentation do not state how to apply the rules. As Wittgenstein ([1968] 1989) has argued, we see objects as in the same category because they resemble other objects we have experienced that are part of this category. We know how to apply these categories because we are within a form of life, we know how to "go on in the same way," which means we know how to correctly follow the rules in particular situations.

The most obvious source of ideas for market-oriented reform economists was the Soviet Union's 1920s experiment called the New Economic Policy (NEP), in which a mixture of planning and market institutions was attempted. Economists from the 1920s and 1930s, such as Oskar Lange, had also theorized about market socialism. During his rise to power, Stalin had criticized the NEP and sought to eradicate market institutions. In the turmoil surrounding the death of Stalin in 1953, the NEP did not have clear positive associations for the Hungarian Communist Party leadership because Soviet Communist Party leaders had not yet taken a position on Stalinism or reevaluated the NEP. Therefore, Hungarian economists turned to other sources, choosing to represent the economy as a "mechanism." Economists historically have used this term (Mirowski 1988). Most importantly, this term fit well within the glorification of engineering in 1950s socialism. The term suggested that the economy could, like a car engine, be tinkered with and a limited market could be installed, which the Party leadership could control through various "levers." The term also presented the economy as a non-social, non-political system, removing responsibility for problems from the Communist Party or specific individuals and placing responsibility on the economy as a mechanical system. Reform economists developed many sophisticated economic theories by applying knowledge about physical mechanisms to the economy.

Babb (1998) and Valdés (1995) examined the institutions that recreated American economic science in Mexico and Chile, respectively. However, they left the knowledge unexamined, giving the impression that domestic actors eventually adopt American science in its entirety and have the same uses for this knowledge as American economists have had. Instead, domestic economists must fit American knowledge within their worldviews and ideas, as well as political context, with unintended consequences. Stalin (1952) and many others had argued that one could use capitalist economic ideas in form, separated from their content. However, apparently non-ideological concepts often imply other more ideological concepts. Dobb (1960) uses the example of the concept "elasticity," which is a purely quantitative ratio from mathematics. This concept in economics implies "demand curves," "indifference curves," and assumptions about individual consumer behavior, which are problematic for socialist planned economies.[28] Domestic economists import economic ideas, which then must be reconciled with existing economic knowledge and theories, as well as their political context.

Reform economists even had to reinterpret seemingly apolitical mathematical economics. From the late 1950s, Hungarian economists increasingly turned to linear programming and American mathematical economics. In socialist Hungary, linear programming was not a neutral tool; American econometricians had already interpreted this tool within their own discourse and their own assumptions about the

[28] The concepts that Dobb mentions do not naturally imply capitalist assumptions, but rather that Hungarian and other socialist economists thought these concepts implied capitalist assumptions and decided the two were necessarily tied together.

nature of an efficient economy, which did not resemble socialist economies. For example, in the first American linear programming textbook for economists, the authors, Dorfman et al. (1958), saw linear programming as a direct application of neoclassical economic theory. The authors presented the ideas of linear programming within the discourse of neo-classical economics, including opportunity costs, marginal costs, demand curves, and production functions. They considered these concepts as logically linked together with general equilibrium theory and individual behavior in a consumer-oriented society. Throughout the book, the authors fused neoclassical theory, their vision of a capitalist economy, and linear programming. Hungarian economists learned this discourse and these assumptions through the authors' many economic examples. American econometrics also offered a means for implementing a market mechanism, which fit into the Hungarian reform economic perspective. At the same time, Hungarian economists reinterpreted these ideas within their understandings of the economy as a mechanism.

The sociology of scientific knowledge provides a methodology for understanding the creation and diffusion of knowledge, which is a necessary part of any study of professions. The eminent historian of Soviet science, Loren Graham, however, states that scholars of the Soviet Union and Eastern Europe have been reluctant to accept the methodology of SSK (1998: 5). They instead focus on the social and political context of Soviet science, considering ideology and political intervention as always an obstacle to science.[29] Graham himself has sought to show

[29] Graham (1998) specifically refers to Lubrano and Solomon's The Social Context of Soviet Science.

that Marxist-Leninist ideology and political intervention have had positive results in Soviet science. At the same time, he finds "absurd" the claim of SSK that knowledge depends exclusively on social variables: reality always "obtrudes" and thus is the final adjudicator in scientific questions.

In contrast to Graham's characterization of SSK, sociologists of scientific knowledge do not claim that knowledge depends exclusively on social variables, but rather that reality is socially mediated. One cannot step outside society to confront reality directly. Sociologists of scientific knowledge advocate a methodological relativism, as opposed to an ontological relativism.[30] They study knowledge claims without evaluating their truth value. By doing so, these sociologists can "symmetrically" examine the social elements of both sides of controversies and of scientific work more generally. SSK, however, is not voluntarism. A methodological relativist does not declare all belief equally valid, but rather seeks to recognize the social in both proven and disproved scientific knowledge. SSK provides a methodological corrective to the standard narrative presented in studies of socialist economics.

This dissertation is an attempt to explain the hegemony of the market in Hungary through an examination of the emergence and increasing influence of Hungarian reform economists. To do so, I use the literatures of the sociology of professions, institutional sociology, and the sociology of scientific knowledge. Yet, the mere presence of a market-oriented profession does not mean that this profession will have an impact on the world. I turn to the literatures on professional power and the role of ideas on policy-making to examine the political influence of economists.

How Market Ideas became Hegemonic in the Communist Party Leadership

Professional Power Literature

Sociologists have not only studied the internal workings of individual professions and the professional system, but also the consequences of professionalization. Early sociologists considered professions essential pillars of any democratic society (Carr-Saunders and Wilson 1933), but some still continue to see professionals as necessary allies against dangerous populism (Keren 1995). Those coming from the neo-Weberian approach argued that professionalization was one of the mechanisms of social stratification, thus an essential factor in social inequality (Larson 1977; McDonald 1995). Abbott (1988) and Freidson (1970) examined the inequality among occupations arising from the domination of professions over subordinate occupations. Jacoby (1987) showed that intellectuals have relinquished their socially beneficial role as public intellectuals by trading in their autonomy and their connection with the public for security and a steady income in universities.

[30] A distinction must be made between 1) ontological relativism, which posits that all knowledge claims are valid because there is no objective reality, and 2) the methodological relativism of SSK, which calls for the examination of knowledge claims that some group actually finds true (rather than what could be true) without evaluating their truth value.

Scholars have considered the roles that professions have played both in the system of social inequality and in the maintenance and stability of democracy.

In contrast to these approaches, I seek to understand the influence experts exercise on the polity. Brint (1990, 1994) has made a systematic evaluation of this literature, categorizing it into four categories: 1) technocracy, 2) extensive mandates, 3) limited mandates, and 4) servants-of-power. According to technocracy or new class theory, experts will take control of government policy making and implementation, destroying democracy (Bell 1976; Derber 1990; Gouldner 1981; Marcuse 1964). New class theorists have also studied socialist countries and argued that the increasing power of technocrats would bring complete totalitarianism, eradicating the possible realization of the utopian goals of socialism (Djilas 1957; Gouldner 1981; Konrád and Szelényi 1972). According to these scholars, in both capitalism and socialism, technocrats are emerging as a powerful group with interests in consolidating their power and creating a non-democratic, totalitarian oligarchy based on technical skills. On the opposite extreme are those scholars who see experts as "servants-of-power," merely reinforcing and legitimating existing forms of power and organization (Noble 1977).[31] The limited mandates position sees experts as having influence limited to technical issues (Freidson 1986), while the extensive mandates position emphasizes the areas where experts maintain exclusive authority and thus significant power (Halliday 1995).

[31] I question the placing of Noble (1977) into this category because he shows that engineers had an immense amount of influence. To Noble, corporate leaders always remain in power and have the final say, but this does not mean that experts have no independent role.

Brint does not find the technocracy or servants-of-power positions compelling, so he focuses on the conditions for limited and extensive mandates. The most important determinants of expert influence are the structural conditions of the national polity. Brint (1994) argues that the limited mandates theory is most persuasive in the case of American experts. The nature of the American political order is a system of stratified and segmented pluralism, which encourages many competing, narrowly defined interest groups. Within this system, political elites maintain the final power to adopt, amend, or reject legislation, though informal forms of extensive mandates can be attained under specific conditions.

In countries with a relatively restricted polity, however, experts can determine areas of policy to a much greater degree than those in the United States. According to Brint (1994), professional power is most likely within a polity that encourages "structured consultation and the corporate representation of the main interest groups in policy making" (p. 194). The Hungarian polity took this form from 1953 to 1989. During this period, economists became quite influential and gained many professional rewards. They did so by promoting reforms that privileged their expertise over that of other professionals, such as engineers. With each market-oriented reform, the Communist Party and state also formed new institutions filled with economists. In the 1980s, they gained further influence as trained economists increasingly worked in the highest echelons of the Communist Party. Market reforms during socialism seemed to increase the power of economists because decisions were decentralized away from the Politburo, increasing the need for economists. Economists' influence appeared as if it would only increase with time.

In contrast, expert influence decreased during the periods immediately after the Second World War and immediately after 1989. In both periods, political actors began to encroach on the areas once dominated by economists. In the Stalinist period, the political arena became highly restricted, leaving economists with a limited role in the new system. In the period after 1989, the political arena has expanded and centralized party-state institutions have ended, leaving economists yet again with a limited role in the new system. These two radically different polities created the same effect: experts' inability to influence politics effectively. The disappearance of expert power in both periods suggests that professions do best in a middle position between oligarchy and democracy, in a kind of expert democracy where professionals are included in the polity, but lay people are not. As Brint has suggested, socialist Eastern Europe did have many of the conditions for technocracy, but, I argue, only during the period between 1953 and 1989.[32] Stalinism and liberal democracy both restricted professional influence in the polity.[33]

Only some professions have the possibility of controlling policy-making. Extensive mandates are more likely to arise in areas central to social regulation, such as law, economics, medicine, and higher education (Brint 1990: 378-379). Economic

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[32] Socialist Eastern Europe had many of the conditions for technocracy: the locus of power in the executive, the blurring of political and administrative roles, and the increased prevalence of scientific training of higher civil servants (Brint 1994: 197-198).

[33] Babb (1998) also finds that monetarist economists did not do well under democratic conditions (p. 245).

policy is particularly important and has most often been framed by economists rather than political elites. As a result of the centrality of their discipline, some elite economists will have connections to political elites and their advisory groups, who relay information and proposals from economists, as well as demand professional benefits in return.

Brint focuses his analysis of professional power on the central policy-making arena, but there are other arenas for policy influence, in particular government agencies. Expert influence is most secure and long-lasting when experts are employed in government bureaucracies. Most importantly, experts can maintain a constant channel of influence through controlling a specialized professional agency (Massey 1988; Freidson 1986). Within an agency, a profession can gain control of employment policies, employing individuals with similar credentials and training. Within the invisibility of a government agency, professionals create "the concrete rules by which programs established by legislation are realized and in administering or supervising the administration of those programs" (Freidson 1986: 194). By focusing on institutional power and employment patterns in government, scholars have a concrete way to measure professional power.

The connection between institutional employment and professional knowledge is by no means clear, which Freidson (1986) points out:

> it is much too simple to assume that, because those in government share professional credentials with those outside, they are captives of their professions and will advance the position of their official professional association on legislation and its implementation. (p. 195)

One could argue that experts come to promote the interests of the institutions in which they work over their own professional interests.[34] At the same time, Freidson does suggest the importance of professional knowledge when speaking about Halliday's 1982 work on law, in which he showed that the bar could adopt a strong position against McCarthyism through a common concern with "legalism" (ibid., 197). Freidson claims this is an exception because associations represent a variety of segments of the profession with different interests, which means that they cannot present a unified professional position on policy and implementation. While institutional affiliation may play a significant role in policy, a focus only on this affiliation disregards the consensual knowledge held by experts and politicians and the ways this consensual knowledge influences policy making.

Scholars have criticized neorealist, rational choice arguments, which assume that individual or group interests can be deduced from political and social structures and that these interests remain stable as long as these structures do. A group of political scientists have argued that neorealist accounts do not explain concrete policy outcomes and that a study of politicians' understandings of events is necessary (Adler and Haas 1992; Goldstein 1993; Haas 1990).[35] According to these ideational scholars, political interests are determined by the actor's knowledge and

[34] Many scholars have argued that the actual content of professional training is not important to policy (Kiewiet and McCubbins 1991; Brint 1990). According to this view, experts adopt the perspectives and goals of the institutions in which they work. Therefore, the important factor in expert influence is institutional, rather than professional, loyalty.

[35] Campbell (1998) and Yee (1996) place this literature within debates in sociology and linguistic approaches, respectively.

understanding of events and situations. As with all decision making, political actors must make policy based on insufficient information, with assumptions about the connection between the policy and the actor's interests, and within a general environment of uncertainty. Therefore, political actors cannot immediately ascertain what their interests are in relation to particular policy options. Without complete information, they, with the help of experts, define and articulate their policy problems and solutions by utilizing habitual responses to problems, routines, and institutionalized scripts that constitute their cognitive frameworks, rather than individually calculating their rational political interests. To understand how particular policies are made, one must document the way that political actors perceive events and how they arrived at those perceptions.[36]

Peter Haas provides a useful framework for examining the role of ideas in organizations and policy-making by applying the term "epistemic community" to international relations. Such groups create new knowledge and channel this knowledge to political actors. According to Haas (1992), an epistemic community is "a network of professionals with recognized expertise and competence in a particular domain and an authoritative claim to policy-relevant knowledge within that domain

[36] Some scholars have argued that ideas themselves can have a causal impact on policy (e.g. Yee 1996; Campbell 1998). According to Campbell (1998), for example, ideas can shape policy when they are clear and simple solutions to problems, fit within existing paradigms, conform to prevailing public sentiment, and are framed in socially appropriate ways (p. 399). By creating an abstract grid for understanding types of knowledge, Campbell does a great service in clarifying the differential impact of these types. I do not seek to make such abstract claims but rather to understand ideas within their cultural, political, and social context: "It is only in these concrete living and breathing communities that discourse becomes meaningful" (Wuthnow 1989: 16).

or issue-area" (p. 3).[37] Members of such communities share normative beliefs, beliefs about certain causal relationships in their issue-area (especially between policy options and outcomes), criteria for evaluating knowledge, and a set of common practices used to approach problems in their issue-area. Specifically, causal beliefs provide guides or "road maps" on how to achieve policy outcomes, while normative beliefs define the universe of possible actions.[38] In contrast to professions or disciplines, epistemic communities share a set of causal and normative approaches.

Hungarian reform economists fit this description well. They shared basic normative assumptions, including their stances against Stalinism, against arbitrary government repression, and for systematic financial means to control the economy. Among their causal beliefs, they argued that markets could be incorporated into socialism and that the Party-state could control the economy through financial means through acting on the economy like a "mechanism." They also argued that leaving economic actors to make their own decisions in response to financial signals would make the economy more efficient. By the 1960s, reform economists had gained authority to provide road maps for economic reforms, which resulted in the New Economic Mechanism in 1968, as well as other reforms.

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[37] The term "epistemic communities" resembles Kuhn's (1962) paradigms and Collin's (1985) core sets.

[38] Goldstein and Keohane (1993), as well as Goldstein (1993), use this term "road map." They have similar findings to Haas', but they focus on knowledge held by many political actors, rather than just groups of scientists.

Epistemic communities deliver ideas into the policy-making sphere through several mechanisms. First, they obtain employment in government bureaucracies and advisory groups, which allow them access to policy-making arenas and authority to make decisions based on their knowledge. Over time members consolidate their power by gaining control of particular bureaucracies, through, for instance, setting employment requirements, determining policy options, deciding how policies will be implemented, and implementing policies. Even though members of the epistemic community may work in different agencies, Haas argues that their shared causal beliefs of an epistemic community form a kind of "invisible college," which is more decisive in determining policy outcomes than institutional employment.[39] For example, in Hungary in the 1960s, the Party made the National Planning Office replace the engineering-trained planners, who dominated the Planning Office, with those trained in economics. This change in the type of experts hired significantly altered the environment and approach of the Planning Office, which changed the way the economy was controlled. In the case of economists, their professional training and identity provided them with a worldview, a way of approaching problems, norms for professional behavior, a language, and a relationship with other economists across institutions, all of which shaped the types of policies and policy options they supported.

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[39] In reference to invisible colleges, Haas (1992) discusses the work of Diana Crane's work on international scientific and professional associations (p. 33).

Hungarian reform economists could also be particularly influential because their epistemic community was very cohesive. As part of their identity, reform economists were committed to market reform ideas. Their identity was strengthened in response to other professional groups with not only different scientific practices but also normative principles quite different from reform economists. In addition, during Stalinism, the Party-state centralized and reorganized professions in order to maintain control over them. After Stalinism, reform economists gained new professional institutions from their political sponsors, providing them an institutional base to develop and spread their ideas throughout the profession. Reform economists later could also take over the centralized institutions of the profession, thus creating by the 1980s an economics profession dominated by reform economists. The centralism of the Party-state and the profession allowed reform economists to gain substantial cognitive and professional unity.

Second, by promoting their programs and knowledge in the polity, epistemic communities "socialize" political leaders into their belief system. Therefore, experts have a cultural role in changing the very understandings and perspectives of political actors. Similar to the impact of the American law profession on government discussed by Miller (1995), experts' normative and causal beliefs can infuse the political culture and further influence political behavior beyond that of the actions of the individual experts. Hungarian reform economists provided a new understanding of the economy and its relationship to politics. These economists were primary actors in both the formation of new economic structures and the cultural understandings through which these structures were experienced.[40]

Third, epistemic communities help create new institutions. These institutions are "embedded" with the normative and causal understandings of the community, thus legitimating and further diffusing these understandings. In Hungary, reform economists helped develop the New Economic Mechanism (NEM) reforms, which institutionalized their consensual knowledge. The NEM also produced thousands of jobs for economists, revolutionized economics training, established new journals and research institutes, and spread an economic perspective. With new institutions and official sanction of their market ideas, reform economists gained institutional support for further market reforms.

Lastly, epistemic communities establish transnational links, forming transnational epistemic communities, which promote diffusion of their ideas and allow for increased influence on policies. These processes lead to the broader acceptance of the beliefs and construction of reality of the epistemic community.

Haas' framework requires alterations to be useful in the case of Hungarian reform economics. The framework should also include theories of professionalization, political networks, and a revised theory of knowledge. When Haas discusses epistemic communities, he means groups of scientists, who have

[40] Scholars of Eastern Europe and Russia have recognized that there was a "creeping economic rationality" in the Soviet Union (Judy 1971), a "hegemonic ideology" of market reform in Hungary (Szelényi 1989: 227), and other forms of emerging economic consensus, but these scholars have not explored the impact of this consensus.

already established professional authority.[41] One of the central questions of this dissertation is how could economists who promoted market reforms successfully claimed professional authority over economic issues in a socialist state. Therefore, it is necessary to integrate an analysis of the emergence of reform economics and its attainment of professional status, which requires the sociology of professions literature.

The role of the political environment and political alliances is essential to explaining both the emergence and influence of Hungarian economics. As Wuthnow (1989) shows, cultural innovation is made possible by political conditions. With economic expansion, new political factions can develop. These new elite factions can then provide intellectuals new organizational settings, in which they can have stable access to material resources and autonomy from political interference. Political sponsors, therefore, play an essential role in professional work. In addition, links political sponsors or political entrepreneurs are also necessary for political influence because these individuals carry experts' ideas to the political arena.[42]

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[41] In his edited volume of International Organization (1992), Haas includes articles about emerging epistemic communities, such as that of central bankers.

[42] The term "political entrepreneur" is used by Goldstein (1993: 3).

Even broader networks are necessary for implementation of epistemic communities' ideas and road maps.[43] With the help of political actors, reform economists mobilized financial government agencies, the media, universities, dissidents, and many other groups, creating a reform social movement.[44] After reforms, these networks of groups usually disassembled, but this "institutional residue" of individuals, institutions, and ideas remained a resource for economists to mobilize for further reform.[45]

Politics is also central to the very enterprise of reform economics. The descriptive, technical, and apolitical appearance of Hungarian economics obscured the fact that economics was an oppositional discourse: economics was politics by other means. Within the Party, nearly every liberal political challenger was trained in economics. Economics provided an acceptable way to be oppositional, in contrast to making, for instance, political, nationalistic, or religious claims.[46] Professional discourse about the economy was understood within this broader political context. Reform economists' specific ideas were mapped onto the basic discursive axes of

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[43] Similarly, Wuthnow (1989) discusses the social movements for socialism, the Enlightenment, and other cultural innovations. The network organization in Hungary could be considered an "organizational field." DiMaggio and Powell (1991) define an organizational field as "those organizations that, in the aggregate, constitute a recognized area of institutional life: key suppliers, resource and product consumers, regulatory agencies, and other organizations that produce similar services or products" (pp. 64-65). In the case of Hungary, an organizational field could be all groups dealing with financial issues. Such a organizational field could provide the network context for a social movement based on financial ideas.

[44] Fujimura (1988) and Starr and Greisemer (1989) study similar social movements in science.

[45] The term "institutional residue" comes from Seleny (1993).

[46] Lewin (1974) also found this to be the case in the Soviet Union, particularly in mathematical economics.

reformer versus orthodox Marxist, thus giving these ideas meaning. Therefore, these ideas resonated with dichotomies within the political discursive field.[47]

Peter Haas, Ernst B. Haas, Peter Hall, and others who study the relationship between ideas and policy assume that correct knowledge will eventually succeed in the policy realm. Ernst B. Haas and Peter Hall follow a "social learning" model, in which organizations and groups learn through debate. According to Hall (1993), monetarist models replaced Keynesian models of policy-making because society pressured the British government to shift its model (p. 288). This pressure was expressed through the media, financial markets, and new research institutes. Haas (1992) presents a "limited constructivist view," arguing that "the world is a real and separate object of inquiry that exists independently of the analyst and that although the categories in which it is identified are socially constructed, consensus about the nature of the world is possible in the long run" (p. 23). They have to make this assumption to explain why politicians would come to accept economists' ideas and not those of other groups.

I seek to bracket out questions about the validity of economists' knowledge claims in order to understand these claims within their historically specific context. Instead of evaluating whether economists or other social groups correctly described and explained the functioning of the economy, I discuss how the social actors

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[47] Wuthnow (1989) discusses a discursive field as a symbolic space with basic oppositions or polarities that give meaning to knowledge. For example, within the social movement for socialism in the nineteen century, the discursive field had bourgeois society as its negative pole and classless society as its positive pole. Specific issues were mapped onto these discursive axes and given meaning.

themselves made such evaluations. Haas (1992) recognizes that reality is mediated by assumptions, expectations, and categories and that verifying knowledge about the world is difficult, if not impossible: "since the very language we use to describe the world is socially constructed, there is no 'objective' basis for identifying material reality" (p. 21). Yet, the problem is even more complex because scientific methods and standards for evaluation of results are social conventions. When trying to establish a means by which to evaluate knowledge, scholars will find an infinite regress because scientific knowledge production is based on social convention (Collins 1985).[48] In a study of economic knowledge in Hungary, the basis for evaluation of this knowledge, or we could say the social conventions for this evaluation, is the very object of study. There will be an infinite regress in the process of searching for an objective standard. To evaluate reform economics, would one use the goals of 1950s Hungary or present-day Hungary? Would one assume the rules of a socialist world or a capitalist world? Would reform economics always create capitalism? If so, why would it be rational for a politician committed to socialism to adopt it? These are the very questions of this dissertation. We can believe that we are getting closer to the truth, but this can only be based on social conventions and can not be proven outside those conventions.

The literature on professions and politics provides many ways to understand the influence experts can have on policy. Sociologists have focused on the roles

[48] Collins (1985) calls this the "experimenters' regress."

professions play in policy-making within the central polity and within government agencies. To understand the power of experts, one must understand how they carry their consensual knowledge into the polity through bureaucratic employment, creating and implementing legislation, socializing political actors, and their political connections. Experts can also mobilize with other actors to implement their ideas and road maps. Furthermore, sociologists should not neglect the cultural role of professionals. Economists, for example, can "economize" political culture, reorienting questions in line with economic categories and assumptions. Economists also can provide the cultural language for understanding economic experiences, such as the experience of markets in socialism. Furthermore, particular ideas and worldviews can gain authority and legitimacy because they are embedded in institutions and resonate with dichotomies within the political discursive field. These processes of expert power help to explain the hegemonic qualities of the market in Hungary by the 1980s.

Overview of Dissertation

The chapters move chronologically. Following this introductory chapter, chapter two covers the years after the Second World War to the death of Stalin in 1953. Most scholars who study this period consider the economics profession completely destroyed or merely the servant of the Party leadership (McDonald 1992; Péteri 1991, 1993; Szamuely 1982, 1984; Szamuely and Csaba 1998). This perspective, however, disregards the fact that economists had many functions in this new system, including economic research, and that the new Hungarian economic science which emerges after 1953 had its roots in the Stalinist period. By ignoring this history, these scholars cannot explain why economic ideas suddenly emerge after 1953, except that the economy must have caused them or the Soviet Union imposed them. This chapter discusses the new ideas about the economy and the new roles for economists, which the Party leadership sought to impose on the economic profession, and suggests the ways this incomplete imposition had unintended consequences.

In chapter three, I discuss the immediate post-Stalinist period, in which political factions publicly emerged within the Party. One political leader, Imre Nagy, professionalized the economics profession, so as to strengthen his position and implement his reforms. A new type of economic science arose with a new type of economist: the reform economist. In response to the extreme uncertainty of professional life during and immediately after Stalinism, reform economists formed the new profession by turning to the professional institutions and practices of pre-1948 Hungary as a source of stability and professional autonomy. Beyond reestablishing the former professional organizations, reform economists in research institutes began practicing "empirical" economics, the study of "reality" rather than the creation and discussion of blueprints for the future. As McDonald (1992) has argued, in spite of its claims, this economics was utopian in nature because economists continued to discuss a future economy about which they had little empirical evidence. At the same time, reform economists developed their profession and ideas within intense conflict with already existing occupations that dealt with economic issues and worked with other political factions. This chapter brings out the political nature of professionalization and the new ways politicians and economists fought for professional space.

The fourth chapter is about how and why the New Economic Mechanism (NEM) of 1968 was implemented. The NEM was a major economic reform, which made Hungary's economic system different from the rest of those in Eastern Europe and the Soviet Union. I argue that instead of claiming that the economy required a market reform like the NEM, we should see the implementation of the NEM within the social context of the time. I examine how economists and political leaders worked together to implement the New Economic Mechanism (NEM) in 1968. Why did Party officials believe that markets could solve their economic and political problems and that markets should solve them? Party officials sought to avoid another revolution like that in 1956 by creating a new policy toward Hungarian society. They "depoliticized" the population, thus moving political discussion to elite circles, and "economized" society, encouraging individuals to shift their political energies to profit-oriented activities. At the same time, in response to political attacks on economists immediately after the Revolution, economists took refuge in mathematical economics, which brought them into contact with American econometrics and neoclassical thought. Hungarian economists used American econometrics to provide a means to create a functioning market mechanism, but also to provide the necessary Western conditions for this mechanism. Through this new knowledge and professional expertise, economists helped to mobilize for the NEM.

In chapter five, I look at the many benefits that economists gained as a result of the NEM and later economic reforms. By promoting the idea that the NEM required a new type of administrator who could understand economics, economists successfully argued for new educational curriculum, new research institutes, and new positions for themselves. As a result, economists became increasingly influential and economic knowledge and consciousness spread throughout society. During the 1970s and 1980s, economists packaged the world economic crisis and the second economy as economic concerns, removing them from the realm of politics. Economists also created alliances with the small democratic opposition, reform politicians, and reform-oriented social scientists. These alliances changed the nature of economic knowledge, but it also further extended economic ideas throughout society. When Gorbachev came to power in 1985, the political context in Eastern Europe changed dramatically. Economists took a powerful role in the changes of 1988 and 1989, as a market system was being formed.

In the conclusion, I discuss the positive and negative consequences of the changes in 1989 to the economics profession. The changes ended the political intervention of the Communist Party in their profession. Economists also gained professional autonomy in their work and in the educational system, as well as professional freedom to publish and speak their views. However, political power became dispersed, removing economists' direct influence on Party and state policy-making. Economists began working for different political parties, which further divided the profession. Many economists went abroad to study and criticized the existing tradition of Hungarian economics as useless. The changes of 1989 dismantled the very structure that allowed them as a group to gain political influence and have professional unity. The fact that there were unintended consequences of economic ideas indicates the need to explain sociologically these ideas, the economic consensus in the 1980s, and the institutions that emerged, rather than accept them as direct reflections of reality.

Chapter II
The Rise of the Economy and the Fall of Economic Science, 1944-1953

After the Second World War, the Hungarian Communist Party sought to implement the Soviet economic system and, with it, Soviet economic science.[1] Attempts to sovietize Hungary were most pervasive in the Stalinist period, the period that ran from 1948 to Stalin's death in 1953. Scholars of Hungarian economic science have argued that economic science ceased during this time. Hungarian Communist Party leaders closed professional institutions and established a new profession of Marxist-Leninist political economy, which supposedly studied the laws of socialism, but in essence merely provided economic propaganda to support Party decisions. These economic propagandists, or political economists, were to make up the majority of the economics profession. According to McDonald (1992), after 1952 "economists wrote laudatory essays on the Soviet Union and Hungary but with few references to actual events" (p. 95). Szamuely and Csaba (1998) argue that "No economic research was carried out, no original economic journals or weeklies were published . . ., no regular statistics were available for the public" (p. 165). Even

[1] There is much debate about when the Party actually decided to implement the Soviet system. Zhelitski (1997) assumes that the Hungarian Communist Party had a plan to establish a "totalitarian regime" as early as 1945 (p. 79). Swain and Swain (1993) argue that Stalin had no blueprint for the sovietization of Eastern Europe before 1947 (pp. 33, 54). Roman (1996) agrees with Swain and Swain: "there is no shred of evidence that the soviets had such a program" (p. 167). According to Roman, the Soviet Union was the most influential foreign power in Hungary, but the Soviet Party leaders did not call for the sovietization of Hungary after the Second World War. In fact, Stalin insisted on multiparty coalition and the presence of non-Communist politicians in the government. This situation changed in 1948 when the Soviet Union broke with Tito (ibid., 222). At this point, the Hungarian Communist Party gained a monopoly over the political sphere and began sovietizing Hungary, which included the imposition of Soviet economics.

government agencies did not do research. For example, the Central Statistical Office was "gutted," becoming a "propaganda organ" for the state (McDonald 1992: 95). According to these accounts, the sovietization of Hungary meant the fall of economic science.

Yet, the postwar situation suggests that the economics profession continued in a new form. After the war, the economy itself was a central concern in Hungary. The Hungarian government focused on repairing the massive destruction caused by the war and sought to resolve the accompanying economic problems. With the centrality of these concerns and the nationalization of most of the economy, the new socialist planning system provided economists with a greater role in government than they had ever had before (Kemenes 1981b: 242).[2] There was a huge demand for economists (Kónya 1984: 15; T. Nagy 1986: 102).[3] A new Economics University was established to meet the demand for politically acceptable economists. Graduates of the University found jobs easily (Kónya 1984: 15). Employers wanted skilled, experienced economists, not just politically acceptable economists. However, since demand for those trained in economics was so high, employers also hired those

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[2] The Party's second-in-command, Ernő Gerő, also declared in a speech in the spring of 1948 that the planned economy will give a large role for economic science (Szabó 1991: 106).

[3] In my dissertation, I use interviews to obtain information about the professional experiences of economists. My primary source for interviews is the 1956 Institute's Oral History Archive (OHA). The OHA contains lengthy interviews with a wide-range of Hungarians, including Lajos Kónya, Tamás Nagy, and Kálmán Szabó, who were economists during the immediate post-war period. I also extensively refer to the interviews of István Hetényi and István Huszár, who were central figures in applied economics in this period.

without degrees. Many students left college before finishing their degrees. With a huge demand for economists, how could the economics profession be dead?

To understand the emergence of new forms of economic science in the post-Stalinist era, we must understand the Stalinist professional situation, against which economists formed their new science. This situation was defined by a professional and political conflict between economists and politicians. Abbott (1988) and Freidson (1984) present professional conflict in isolation from politics, economics, and broad social changes. While their models provide a powerful way to understand professional development in response to other occupational groups, the case of Hungarian economics shows the hazy border between politics and professionalism. In the Stalinist period, Communist Party leaders and those in the pre-1948 "old" economics profession competed for economic authority.

On the face of it, there did not seem to be much competition in this period. After 1948, Party leaders rapidly shut down professional economic institutions, fired economists, and closed public forums. Party leaders imposed their own economic division of labor with a highly segregated and restricted economics profession. The political economist became the central figure in the new economics profession. Furthermore, Party leaders used a range of rather unprofessional strategies such as terror, purges, and arrests to impose the new system, and the Party's successes were based largely on political and charismatic authority. Therefore, the situation does not appear very competitive or very professional.

Even with their political arguments and seemingly unprofessional strategies, Party leaders still had to compete with the old economics profession; they could not completely impose their will. Party leaders had two general problems with their jurisdictional claims. First, it was difficult to implement the Soviet economic system. Replication of any technical skill is never easy and requires tacit knowledge, which cannot be explained through writing or speaking (Polanyi 1958). As Collins (1985) discusses in the case of building a laser, scientists had to learn skills in the presence of someone who had already built a laser. The adoption of a system requires tacit knowledge not only of how to build it, but also of the social conventions with which practitioners could use to "go on in the same way."[4] Inductive inference, generalizing and predicting from past experiences is always uncertain. The rules for making the Soviet economic system function are indeterminate because the rules do not state how to apply the rules (Wittgenstein [1968] 1989; Knorr-Cetina 1981; Lynch 1985). Furthermore, the Soviet economic system had been in continuous flux, so that there was not a definite set of rules to follow to make a Soviet economic system. These problems with tacit knowledge arose in both the application of Soviet theoretical knowledge and technical skills. Hungarian officials in the new system saw non-Communist economists as able to provide these skills, even though they were not politically acceptable. Professional competition reappeared in the new economic

[4] "Going on in the same way" means knowing how to correctly follow the rules in particular situations. Wittgenstein ([1968] 1989) discusses the example of knowing how to complete the series "2, 4, 6, 8 ..." There are different rules to follow depending on the situation.

system because the old economic science continued to maintain some legitimacy in the economic realm and because those leading the new system had connections with the old economics profession. Within the conflict over professional work, Party leaders successfully removed the old economics' institutions and public forums, but Party leaders and other officials felt that they could not completely abolish the impact of the old economics profession.

Second, Party leaders imposed their own vision of a Marxist-Leninist economic profession, but their jurisdictional claims to economic expertise remained supported by political means, rather than professional unity, and thus the profession remained weak. Within the Party leadership, there were several economists. These economic politicians, including István Friss and Andor Berei, had extensive mandates within Brint's (1990) categorization, but, due to the enforced unity within the Party, they did not make independent claims to economic authority. These economic politicians did have close control of the economics profession. The rank-and-file economists were essentially servants-of-power and thus reinforced and legitimated existing forms of authority and organization. The profession was highly divided without avenues for professional communication. The economics profession also could not satisfy the demand for economists and worked within a chaotic professional situation. Party leaders had imposed political requirements on university admission policies and personnel decisions, which meant that economists who led agencies and other institutions had to contend with many politically acceptable economists with little formal education and no practical experience. Finally, applied economists had to cope with the incompleteness of the Soviet economic system. For these reasons, the Hungarian economics profession was divided and weak.

Divisions within professions are not unusual. Bucher and Strauss (1961) argue that professions are "loose amalgamations of segments pursuing different objectives in different manners and more or less delicately held together under a common name at a particular period of history" (p. 326). Within the workplace setting, each segment of a profession develops its own interests and often seeks exclusive jurisdiction over a particular type of work. Freidson (1984) has argued that all professions have a rank-and-file which does the routinized work, while the elites of the profession make decisions and evaluate the rank-and-file, and academics create abstract knowledge and professional standards. There is always intraprofessional competition for intellectual authority and economic power. Abbott (1988) has discussed the variety of ways professional segments respond to changes in their work situations. For example, a segment may break off from the profession and fuse with another profession. If they do not have any means for unifying, either through common institutions, common workplace experiences, or common professional ideals, however, professions may fall apart or be hindered in their professional work.

Stalinist political leaders argued that the imposition of the Soviet system would have been easy if specific individuals and classes had not blocked this imposition. Scholars have accepted the idea that political leaders one-sidedly imposed this system in the face of popular opposition. As a result of this view, scholars have found Stalinism sociologically uninteresting and denied the existence of economic science. The lack of academic interest in Stalinist economics arises in part because scholars have primarily used documents from public forums, which leads to a focus on only certain aspects of the period. In public forums, such as journals, economists espoused propaganda and did not present research. However, economists did conduct research and other work beyond propaganda, but this work was not made public. It is important to show the continuities between the pre-Stalinist, Stalinist, and post-Stalinist economics professions.[5] While the discontinuities must be recognized, a neglect of the continuities leads to misunderstandings about economic science in the Stalinist and post-Stalinist periods. Scholars who focus on the discontinuities have presented post-Stalinist economists as fundamentally breaking with the past and producing more accurate understandings of reality than Stalinist experts did. If Hungarian economics disappeared in the Stalinist period, then the suddenly very public nature of economic research after 1953 appears to come completely out of the blue, which produces the impression that these ideas were a perfect reflection of the economic situation. Importantly, economists in the post-Stalinist period presented their own work as fundamentally different from Stalinist economics and claimed to be more scientific than Stalinist economists had

[5] Others have emphasized these continuities in order to show the similarities between Nazism and Stalinism (Lengyel 1981; Zhelitski 1997), but this is not my purpose.

been. These arguments must be understood as professional claims, rather than as evidence about reality. To understand Hungarian economic science during the entire socialist period, we need to study both the political constraints of the Stalinist period and the professional experiences within these constraints.

In order to examine the professional competition for economic work and knowledge, this chapter begins with a presentation of the ideal Soviet economics that Hungarian Communist Party leaders worked to impose and the ways they imposed it. By focusing on the political imposition of Soviet economics, it appears that the old economics profession was destroyed. After this discussion of the fall of economic science, I turn to the theoretical and technical problems of imposing a Soviet economic system and the ways these problems were solved. Finally, the discussion moves to how economists worked within the new system. In contrast to the ideal of the political economist, economists played a variety of roles and experienced many difficulties in their work, which influenced the profession and the knowledge it produced in the post-Stalinist period. By studying the competition over economic practice and knowledge, rather than the one-sided imposition of Soviet economics, the complex nature of Stalinist economics emerges, which illuminates our understandings of Hungarian economics in the post-Stalinist period. We now turn to the historical background of the Stalinist period.

Historical Background

During the Second World War, Hungary had allied with Nazi Germany. Before this alliance, Hungarian leaders had been both anti-Semitic and anti-German. In 1919, Admiral Miklós Horthy led the Hungarian National Army to successfully put down the 133-day Communist revolution and ruled the country as regent until 1944. Horthy created a "Christian regime," and the many interwar governments implemented anti-Semitic laws, including a numerus clausus law in 1920 restricting the access of Jews to professional schools and developed a quota system on the basis of race and nationalities (Kovács 1994: 49; Hoensch 1988). While Horthy remained regent, prime ministers changed many times and vacillated between conservatism and fascism.[6] The Hungarian interwar governments sought revision of the borders established by the Trianon Treaty in 1920, which ceded 71 percent of Hungary's original 325,411 square kilometers of land to other countries and reduced the population in Hungary from 20.9 million to 7.62 million (Hoensch 1988: 102).[7] While the Hungarian interwar governments feared domination by Germany, Hungarian leaders also saw Germany as able to help them to regain lost lands. The desire for the old borders led the Hungarian government to join the Tripartite Pact with Germany, Italy, and Japan in 1940. In spite of this alliance, the Hungarian

[6] For example, the prime minister in 1932, Gyula Gömbös, wanted to establish Italian fascism in Hungary (Macartney 1956: 115; Hoensch 1988: 113). On the more conservative side, the prime minister from 1921 to 1931, Count István Bethlen, wanted "old Hungary" with its pre-Trianon borders (Macartney 1956: 37).

[7] Hungary lost 232,448 of its original 325,411 square kilometers of land (Hoensch 1988: 102).

government and significant sectors of the population remained anti-German. In order to overcome continued Hungarian opposition to Germany and to assure economic resources for the war, Nazi Germany occupied its ally, Hungary, in March 1944. The Nazi-allied Arrow-Cross Party then took control of the country, sending hundreds of thousands of Jews to their deaths in camps.

The Soviet Red Army drove out the German forces by April 1945. The war had ravaged the country. From the population of 9 million, between 420,000 and 450,000 people died.[8] Prisoners during the war totaled 900,000; 200,000 had left the country during the war, and between 170,000 and 240,000 Hungarians of German descent were deported after the war. Forty percent of the national wealth had been destroyed, which included more than half of the industrial and transportation assets, twenty percent of agricultural assets, and twenty percent of the apartment buildings. The national income in 1945/46 was two-fifth the pre-war level. In reparations, Hungary was required to pay 300 million dollars to Yugoslavia, the Soviet Union, and Czechoslovakia within 6 years. In 1945, Hungary had to begin its yearly payments of fifty million dollars, which was between fifteen and twenty percent of its

[8] The data in this paragraph come from Pető and Szakács (1985: 17), Lengyel (1981), and Zhelitski (1997). The population had increased to nine million in Hungary after the Trianon Treaty because Hungary had regained some land through its alliance with Nazi Germany. These authors state that about 220,000 Hungarian Jews died during the Holocaust. However, an accepted source in German historical studies estimates that at a minimum 402,000 Hungarian Jews died and at a maximum 569,000 (Niewyk 1997).

national income at that time (Zhelitski 1997: 76).[9] The Hungarian Provisional National Government, which formed at the end of 1944, had to cope with this dire situation.

The Provisional National Government followed the demands of the armistice agreement of January 1945 and made an immediate break with Nazi Germany, closed fascist organizations, prosecuted war criminals, and ensured democratic rights (Balogh and Jakab 1986: 16; Zhelitski 1997: 75-76). Furthermore, it implemented a significant land reform.[10] Nationalization began with the mines in 1946 and continued until December 1949 when all enterprises employing more than 10 people were nationalized. Much of the population demanded further reform, including nationalized schools, university reform, democracy, and workers' universities.

In 1945, municipal and parliamentary elections were held. In contrast to the expectations of the Communist Party, the Small Holders' Party won an absolute majority.[11] The Communist Party gained several key ministerial posts, including the Ministry of Internal Affairs, and headed the Supreme Economic Council, the agency

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[9] Hungary's 1945/46 national income was about 40% of that in 1938 (Lengyel 1981: 113). On August 18, 1953, the Soviet Union canceled Hungary's remaining debt of 65.7 million dollars (from the original 200 million dollars intended for the Soviet Union) (Zhelitski 1997: 76).

[10] Approximately 35% of the country's land and the structures on this land were distributed to individuals, cooperatives, and the state, thus decreasing the proportion of those in the agricultural population without land from 46% to 17% (Pető and Szakács 1985: 37-40).

[11] The November 1945 parliamentary election results were:

Small Holders' Party	245 seats
Communist Party	70 seats
Social Democratic Party	69 seats
National Peasants' Party	23 seats

that made all major economic decisions. By merging the left-wing parties and then purging "right-wing" members, the Communist Party was able in 1948 to eradicate all other parties and gain a political monopoly.

The years between 1948 and 1953 are often called the "dark years" and were filled with economic hardship and the attacks on "class enemies." At the helm of the Communist Party sat Mátyás Rákosi with Ernő Gerő as second-in-command. They implemented Stalinist policies of rapid, forced industrialization, gave priority to heavy industry over consumer production, and conducted a war against class enemies. In the first years, the economy performed well. However, in 1951 and 1952, economic and political difficulties arose. A confidential government report found that living standards had actually decreased in the 1950s, which was a blow to the regime. Economic problems were blamed on sabotage. A purge of Jewish Party leaders was expected in response to Stalin's Jewish Doctors trial, but Stalin's death in March 1953 stopped the purge and opened up the possibility for change. Soviet Party leaders then forced both Hungarian and East German Party leaders to take a "New Course" in their economic and political practice. This chapter is about the period before this "New Course."

Bourgeois Democratic Party 2 seats. (Zhelitski 1997: 78).

Soviet Economic Science

After the Second World War, the Hungarian Communist Party sought to impose Soviet economic practice and Marxist-Leninist economic science. Scholars have debated about when the Party leaders started this process, but it seems safe to say that it began in 1948.[12] In 1948, Ernő Gerő declared that Hungary should apply "Marxist-Leninist-Stalinist economic theory" to Hungarian conditions (1948: 653-654). The old economic science was "bankrupt," and only socialist economics would help solve national economic problems and effectively run the economy (ibid., 655). Soviet economics included a hierarchy of economic work. At the top of this hierarchy, Party leaders decided policy and the overall national economic plan. Other occupations worked out the details of the plans and monitored them. At the lowest levels, the majority of economists worked as political economists, those who provided theoretical support to Party decisions. In this section, I explain this ideal hierarchy along with a discussion of Soviet economic ideas.

The role for economists within the Soviet socialist system had changed over time. In the beginning of the Soviet Union, theorists argued that a political economy (or economics) of socialism was not possible because economists studied commodity exchange relations, which would wither away under socialism. As Bukharin and Preobrazhensky ([1919] 1966) stated, direct exchange in kind would replace

[12] See footnote one for a discussion of when Sovietization began.

commodity exchange relations, and banks would function merely as "central counting houses," using simple bookkeeping methods (p. 333). Socialism would involve a state economic plan, large-scale industry, the end of small-scale and private industry, the full nationalization of agriculture into large-scale Soviet farms, the end of private trade, direct exchange in kind, and the disappearance of money relations, leading to the administration of the planned economy and the end of political economy. In such a system without commodity exchange relations, political economists would not have an object of study and thus would not exist as an occupation.

In spite of the expectation that economics would whither away, economists continued to work in the Soviet Union. During the relatively free period of the 1920s, economists did innovative research (Judy 1971: 218). From the late 1920s to the late 1940s, however, Stalin purged those economists and other experts who he felt were critical of his ideas and plans.[13] These purges changed the nature of economists' work but did not completely eradicate it. Stalin had recognized that the Soviet economy still produced commodities, so economists technically still had a role. The main role for economists was to provide doctrinal support for Party-state decisions with Marxist-Leninist quotations. According to one scholar of the Soviet Union, the work of these political economists was a "vapid ecclesiastical catechism,

[13] In 1929 and 1930, V. G. Groman and V. A. Bazarov were both removed from their jobs in Gosplan, the Soviet planning agency. Groman was later sentenced, while Bazarov disappeared completely (Judy 1971: 219). Judy does not cite any arrests of economists in the 1930s purges, but it is likely economists were purged in the later part of the decade.

characterized by sterility and sycophancy" (Judy 1971: 223). A few economists conducted critical state-sponsored research hidden from the public eye (ibid., 221).[14] Economists also worked in the lower-levels of planning, such as in the areas of accounting, but planning was done by "practical planners and managers" (ibid., 219).[15] Economists did not play a significant role in the Soviet hierarchy of economic work.

Soviet Party leaders in the Politburo made most economic decisions. Stalin (1952) stated, "To foist upon political economy problems of economic policy is to kill it as a science" (p. 72). Therefore, economists were not to work on economic policy. To support the Politburo's monopoly over policy, Stalin argued that politics and the economy worked as a unified whole: "in practice – politics and the economy are inseparable" (Osztrovityanov 1950: 149). Within this inseparable sphere, the economy was subordinated to political concerns because all decisions should be judged first from a "political" point of view, rather than from the narrow view of "economic practicism" (ibid.).

Instead of using markets or economists to regulate the economy, Soviet party leaders expanded the role of "controllers," those who monitored and disciplined state and party institutions (Boim et al. 1966; Lampert 1985; Rees 1987). In Tsarist times, controllers had conducted financial audits of government agencies. With the

[14] There was some innovative work, such as V. V. Novozhilov's work on prices and Leonid V. Kantorovich's work on linear programming, which later won him a Nobel prize (Judy 1971: 219).

nationalization of the economy in the Soviet Union, controllers' work expanded to monitoring the entire economy. Controllers were closely connected with Stalin, particularly because he had headed the State Control Agency in the 1920s. Stalin introduced new tasks for controllers. According to him, controllers should eradicate bureaucratism and "official local patriotism," improve work discipline, and create a new socialist work morality (Káldor 1949: 471).[16] Bureaucratism and "local patriotism," or local interests, blocked the uniform and effective implementation of Party and government policies. For controllers, economic problems resulted from a lack of work discipline, inattention to the economical use of materials, self-serving attitudes, illegal activities, corruption, and the underestimation of resources. Controllers examined state institutions, punished those responsible, and "educated" employees about problems that were discovered. Controllers formed a relatively direct link between policy makers and the objects of policy. For controllers, there was no separation of economics and politics; they monitored all state institutions (Magyar állam 1985: 25). They were a very important part of Stalin's hierarchy of economic work.

Within the Stalinist hierarchy of economic work, Party elites made policy and planning decisions, planners assembled plans, and controllers monitored the implementation of plans. There was little room for economists except as

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[15] According to Osztrovityanov (1950), Stalin told economists in 1931 that they were to strengthen the principle of efficient accounting, decrease costs, and increase industrial investment (p. 161).

philosophical supporters of Party policy, accountants, and, in a few cases, researchers.

Economic Ideas

As mentioned above, economists worked mainly as Marxist-Leninist political economists and practiced "a vapid ecclesiastical catechism." Marxist-Leninist economics consisted of the political economy of capitalism, the political economy of socialism, and a variety of applied branch studies.[17] The two fields of political economy were part of the Communist worldview curriculum, which also included courses in the history of the Soviet Communist Party, the history of the Hungarian Communist Party, and Marxist-Leninist philosophy.[18] This curriculum was seen as necessary ideological training for leaders and employees within Party-state agencies.

The political economy of capitalism was Marxist-Leninist criticism of the different phases of capitalism and capitalist economic ideas. Based primarily on the works of Marx and Engels, this field presented capitalism as inherently exploitative, tending toward monopolies and crisis, profit-oriented, unable to consciously use

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[16] In his article, Káldor (1949) describes the Soviet system of control in the Hungarian Communist Party's main party journal, Social Review (Társadalmi Szemle).

[17] This information comes from both the 1952 plans for the Marxism-Leninism Evening University (Budapesti Bizottság 1952) and the first political economy textbook in Hungary: Politikai Gazdaságtan: Tankönyv ([1954] 1956). By 1954, many things had changed, but I argue that this textbook is still typical of the Stalinist period.

[18] "Worldview curriculum" is the group of classes that Party leaders saw as necessary for gaining the official socialist perspective. With the appropriate perspective or worldview, they hoped Party or state employees would make everyday decisions that followed correctly from the Party's policies.

economic laws, and incapable of being planned. Education in this field started with a study of the method of political economy and then presented different aspects of capitalism, such as capitalist surplus value, average profit, and the general crisis of capitalism.

The political economy of socialism was essentially a blueprint for socialism based on the situation in the Soviet Union in the 1940s, Stalin's ideas about the next necessary steps to communism, and quotations from Marx, Engels, Lenin, and Stalin. In schools, many more class hours were devoted to this field than to the study of capitalism.[19] Political economists explained the blueprint for socialism and described how Party policies fit into this blueprint. They also sought to differentiate socialist economics from capitalist economics, thus maintaining the doctrinal purity of socialism. Political economists defined socialist wages, work structures, commodities, accounting, trade, and banks, in opposition to those in capitalism, which were only similar in form.

Finally, there were many branches of economics, such as planning, agriculture, accounting, and trade, which were not considered part of the Marxist-Leninist worldview curriculum. These branches sought to teach the technical aspects of these areas, but most people learned technical skills on the job. In general, the

[19] The Marxism-Leninism Evening University students had to take 320 hours of courses (Budapesti Bizottság 1952). From that, courses in political economy took up 124 hours. The political economy of capitalism was 28 hours long, while the political economy of socialism was 42 hours long. The remaining 124 hours were taken up with seminars and exams.

applied branches provided Marxist-Leninist justifications for the specific techniques used by Party-state agencies.

The Imposition of Soviet Economics in Hungary

Hungarian Communist Party leaders sought to impose a Soviet-styled planned economy, which required new experts and new knowledge. According to Gerő, the Party's second-in-command, the planned economy required economists that were scientifically trained, recognized practical problems, and arose "from the people" (1948: 652). Only socialist economists could help the planned economy because bourgeois economics was "bankrupt" and had protected and praised capitalism (ibid., 655; Rudas 1948: 658). To create a new generation of socialist economists, Party leaders closed down professional institutions and established new Marxist-Leninist ones that fit within the Soviet hierarchy of economic work.

However, Party leaders did not single-handedly undermine the old pre-Communist economics profession. By the end of the Second World War, the Hungarian economics profession had already lost much of its status. Furthermore, Hungarian economics had a history of successes and failures. The Party took advantage of the weakened position of postwar economics and imposed the Soviet hierarchy of economic work. First I deal with the situation of economics after the war, and then I move on to the actions of Party leaders in their capture of the jurisdiction of economic work and the control of the economics profession.

Postwar Hungarian Economics

After the Second World War, the economics profession was on the defensive for a wide variety of reasons. Compared with other professions such as medicine and law, Hungarian economics did not have a long tradition. It also had a history of state intervention in its work and profession before the political monopoly of the Communist Party in 1948. Since the eighteenth century, several schools taught accounting and trade, but economics did not become organized as a profession until the late nineteenth century (Szögi 1995; Zoltán 1973).[20] In the nineteenth century, economics became popularly associated with economic growth and progress, in opposition to jurisprudence, which was the traditional education of civil servants (Balázs and Lengyel 1987: 19-24). Employers called for university-level economics training because they saw the need for "scientific" training in public administration and production. In the final years of the nineteenth century, Hungarian civil servants working in economic areas and company directors formally organized the economics profession. They established professional institutions, such as the Hungarian Economics Association in 1894 and a professional journal called the Economics Review in 1895. The founders of these institutions sought to spread economic ideas and influence political decisions by providing forums for economic discussion.[21]

[20] In the late nineteenth century, professions were organizing worldwide. For the case of the social scientific professions in the United States, see Furner (1975) and Ross (1991).

[21] Bárányné Szabadkai et al. (1995) presents the arguments of the founders.

Hungarian economics enjoyed increasing social prestige through the 1910s. At this time, the government showed its high regard for economics by seriously considering opening an Economics University, independent from other universities. Some courses in economics topics were already taught in the Law and State Sciences Faculty, but university-level economics training was centralized only in 1914 when the Budapest Technical University opened an economics department (Sipos 1995: 152). The economics community had wanted an independent university at least since 1911, if not earlier (Mihalik 1995: 51). Much of the public, the economics departmental faculty, and many government leaders supported this idea because the university would allow economics to flourish. According to these supporters, the national economy would then strengthen and grow, allowing Hungary to compete favorably in international markets.[22] The short-lived Communist Revolution and the fall of the Monarchy ended the plans for a university, but the government did establish an Economics Faculty in 1920.[23] The new Economics Faculty had all the rights of a university, except that it was not assured university autonomy, which gave it an uncertain status. Even with this uncertain status, the Faculty was an improvement professionally over the previous economics department.[24]

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[22] Mihalik (1995) discusses in detail the arguments made by economists for an independent economics university.

[23] Law XXI. tc. (Zoltán 1973: 12).

[24] In contrast, the American and British social sciences at this time were still struggling for recognition and departmental status (Personal communication with Michael Bernstein). See also Furner (1975) and Coats (1967).

By 1920, economists had gained enough professional status to share a monopoly with lawyers over economic work in the government. Before 1920, civil servant positions required a law degree. Two laws, one from 1920 and another from 1929, expanded this requirement, allowing those with an economics degree to be employed in ministries dealing with economic matters and at ministries which contained offices dealing with matters demanding economic qualification.[25] These new laws opened a world of employment to economists. Economists without law degrees could become ministers, bureaucrats within ministries, and managers of state companies, as well as take on many other positions. Economists could have increased influence on the ways government functioned and on government policy. The inclusion of economic degrees in civil servant qualifications signaled for many a move toward modern government based on expertise with a broad understanding of society and the economy, in contrast to law. The 1910s represented a period of increasing prestige for Hungarian economists.

The First World War and the Great Depression quickly ended these positive professional developments. The public saw economics and its free market theories as outdated and of little interest (Heller 1946: 7). For example, in late 1929, the

[25] Laws 273/1920 ME and Law 1929: XXX tc. 65. The 1920 law read:

> Only those individuals can apply for employment in the civil service branch of the public authorities in the central management of ministries dealing with economic matters or those ministries which contain offices which deal with matters demanding economic qualification . . . who, if they do not have qualifications mentioned in the 1883 law I. t-c. 3 paragraph, have successfully passed an economic science state exam at a Budapest scientific university. (Mihalik 1995: 70). The 1929 law stated that an economic science degree was necessary from the Economics Faculty.

Hungarian Economics Association introduced a series of lectures called the "Economics Lyceum," which featured Hungary's best economists, including Farkas Heller (Magyar Közgazdasági Társaság 1946: 41). The series quickly ended due to lack of interest. Critics saw technical sciences, such as engineering, and economic science as essentially the same discipline because they both dealt with increasing efficiency in production (Zoltán 1973: 15). In 1929, the government decided to reunite the Economics Faculty with the Technical University without consulting the economics professors.[26] Economics professors kept their right to give qualifications and doctorates, but they lost their right to habilitate students and thus to credential lecturers (magántanár).[27] The government was also given the right to determine the topics for required exams and to control the details of the exams (Csizmadia 1976: 460).[28] The 1920s brought significant changes to university-level economics education and the profession more generally.

During the preparation for the war and the war itself, the Hungarian economics profession continued to experience state intervention. In 1939, the Ministry of Culture made new rules about admission and required the Faculty to ask for authorization from the Ministry of Culture about personnel decisions, such as

[26] The government actually placed the Economics Faculty within the Technical University in 1934.

[27] Habilitation is essentially the acquiring of a second Ph.D. By habilitating, students obtained the right to teach in universities. The university did not pay these lecturers, but rather the students in the class did.

[28] Laws 1929: 30 t.c. and 1934: 10 t.c. (Csizmadia 1976: 458-460).

decisions about the president of an exam committee.[29] The Budapest Commerce Academy was also nationalized and fused with other institutions.[30] Economic science had experienced episodes of increasing and decreasing prestige, as well as state intervention in its professional practices.[31]

After the Second World War, economists were attacked along with other groups of Hungarian professionals. Many groups called for a new civil service and a new intelligentsia. For example, supporters of the People's Colleges movement argued that Hungary needed a new expert intelligentsia because experts from the reactionary pre-war period blocked economic and political progress (Megforgatott 1994). People's Colleges were live-in institutions that sought to create worker and peasant expert intellectuals. Industrial workers and peasants were seen as good candidates for the new intelligentsia because they had not taken part in the earlier regimes. Within the postwar period of change, professionals had an uncertain position.

Economists had worked within the government, the university, and companies, and thus were open to attack. The professors within the Economics Faculty were closely connected to the government and "old Hungary." The prime

[29] BUES 6/a/1939, p.15. Minutes of the Economics Faculty, Sept. 28, 1939.

[30] BUES 6/a/1939, p. 6. Minutes of the Economics Faculty, Sept. 28, 1939.

[31] In addition, at least one economics professor, Dezső Laky, was removed from the Economics Faculty and sent to a concentration camp (Osváth 1995: 168). I do not know whether he was Jewish, but he was an important politician. There were probably other economists who were sent to concentration camps, but I do not have information on them.

minister in 1939, Pál Teleki, was a member of the Economics Faculty.[32] At least one professor, János Bud, was a government minister, while others, Endre Fülei-Szántó and Dezső Laky, worked in high positions in ministries. There were three members of the Order of Heroes (Vitéz Rend) in the Faculty: Vitéz Dániel Fábry, the general secretary of the highest military council, Vitéz Zoltán Guótfalvy, and Vitéz Tivadar Surányi-Unger (Budapesti Magyar Király 1941/42: 57-58). Those in the Order of Heroes had fought at the front and been decorated in the First World War, and in the Horthy period they were awarded land in recognition of their "patriotic values" (Hoensch 1988: 107). There were also several aristocrats in the Faculty, such as Baron Albert Kaas, Baron Lajos Villani, and Count Pál Teleki. Other professors won national awards and gained positions as deans and association presidents in the conservative political period. The economics profession had many connections with the old Hungary, which was under attack.

Economists recognized this attack and tried to defend themselves. Farkas Heller (1946), one of the most important Hungarian economists from the interwar period and long-time leader of the Hungarian Economics Association, saw that economics lacked the popularity it had had in the nineteenth century. According to him, economics was now attacked for its abstractions and blamed for a wide range of crises (ibid., 1).[33] He agreed that the "the unrestrained confidence in economic

[32] BUES 6/a/1939, p. 2. Minutes of the Economics Faculty, Sept. 28, 1939.

[33] Farkas Heller was vice president, and Antal Éber was president of the Hungarian Economics Association from 1926 to 1948 (Bárányné et al. 1995).

freedom" arising from classical theory did not bring the economic development that economists had expected, which led to the declining popularity of their science (ibid., 6). Heller spent many pages discussing the faults of his profession. In spite of its failings, Heller argued, economic science could help society, particularly because economics had changed in the 1920s and 1930s and gone beyond classical theory (ibid., 10, 14). Economists sought to defend themselves against popular attacks on their profession.

Even before the fighting ended in Budapest in 1945, the new Provisional National Government created a new state structure to rebuild the country and dismantle the institutional structure that had supported fascism. To execute these tasks, the state required a huge staff. However, the new government made its personnel decisions more on the basis of political acceptability than expertise. Furthermore, the criteria for expertise had also changed with the government's vision of a modern Hungary, in opposition to tradition "old Hungary." This overhauling of the government undermined the monopoly Hungarian economists had shared with lawyers over government jobs since 1920.

Officials in the new government sought to create what they considered to be a modern economic and political system, which, they believed, required experts with new skills. According to their vision, the state needed people with expertise in such techniques as planning, price fixing, and management within a planned economy, but few people had such training. Planning economics was a relatively new field in

Hungary. For example, István Hetényi, a student in the Economics Faculty immediately after the war and an economist in the Supreme Economic Council, remembered that his studies in the Faculty had familiarized him with planning ideas (1987: 75-79). His professor, Farkas Heller, had revised his macroeconomics courses after the war to include planning. Hetényi found that these courses introduced him to planning, but he learned most planning techniques on the job. The state had to find similar people who might be able to develop planning techniques.

In spite of the demand for experts, the Provisional Government conducted purges of the administration. One of the first government orders in 1944 was to screen public servants about their activities since 1939.[34] The government passed a series of laws requiring public employees to report their activities, so that they could be screened for fascist and undemocratic behavior.[35] A further phase of screening occurred with the so-called "B-lists," which were intended to reduce the number of civil servants by 10% of the 1938 figures and to fire those who had "injured the interests of the Hungarian people" after 1939.[36] By September 1946, between 50,000 and 60,000 state employees were fired (Németh 1988: 8). The government had formed with the intent of breaking with the fascist past, but it was not so simple to decide which experts and civil servants were politically acceptable. In most cases,

[34] The Provisional Government made this decision on December 22, 1944 (Magyar Közlöny 1, May 2, 1945: 1).

[35] These laws were 15/1945 ME, 16/1945 ME, and 17/1945 ME (Magyar Közlöny 1, January 4, 1945: 3-5). They were put into effect January 4, 1945.

experts had been trained and had worked under fascist and extremely conservative regimes. How could the government know whether someone was fascist and would bring back the old regime? Could supposedly neutral technocrats hide fascist ideas in their work? What were the signs of a progressive person?

As can be seen from the phrase "injured the interests of the Hungarian people," the criteria for undemocratic activity were not precisely determined, which led to abuses. Many people used false information to accuse others (Németh 1988: 7). Some were fired without special political complaint against them (Balogh and Jakab 1986: 45). Party affiliations played a role in decisions.[37] For example, some government ministers tried to get rid of people who belonged to other parties. In general, this screening process and the shortage of people with expertise caused employers to make their hiring decisions based primarily on political concerns, rather than on expertise, professional qualification, or experience. The government could not find enough experts with acceptable political credentials, so it accepted whomever had acceptable political credentials, even if they did not have professional credentials.

However, employers did not always hire with politics as a priority. For example, Zoltán Vas, one of the leaders in the Communist Party and head of both the Supreme Economic Council and the National Planning Office, hired experts more for

[36]This percent comes from Balogh and Jakab (1986: 45). The quotation "injured the interests of the Hungarian people" comes from order 15/1945 ME (Magyar Közlöny 1, January 4, 1945: 3-4).

[37] Botos et al. (1988) discuss examples of such abuses (p. 42).

their skills than for their political background. In his offices, Vas employed people considered politically suspect, such as the daughter of a count, the former secretary to a duchess, Horthy's industrial minister, and the son of Horthy's justice minister (Vas 1990: 98). As one of the highest ranking officials in the Party, Vas could hire whomever he wanted, but he often fought with the Communist Party's personnel department to keep his employees and eventually was fired in 1952 after continued attacks on his employment policies (Hetényi 1987: 39).[38] Before he lost his job, Vas used many experts from the pre-socialist system, incorporating their techniques and knowledge into his ideas about planning. Experts without strong political credentials could find employment in other agencies, such as the Central Statistical Office, which did not have the political importance of the Supreme Economic Council or the National Planning Office but did have a strong leader, György Péter, who protected his employees.

In most cases, however, employers made hiring decisions based on political credentials. These credentials undermined the monopoly that economists shared with lawyers over government employment. In 1945, the new government declared that those employed in state positions requiring qualifications needed to pass a civil service exam within one year, or give up their positions.[39] Soon after this order, the government declared that the state could employ those without qualifications if a

[38] PIA 276/53/100/1952. File on the "cadre situation" in the National Planning Office.

[39] Law 1.030/1945 ME (Magyar Közlöny 1, April 26, 1945: 3).

ministry declared that an individual did not have to take an exam.[40] These rulings replaced the old requirement of an economics degree with a new requirement of an exam that was not necessarily enforced. People without economics degrees could take jobs once reserved for trained economists. As a result, economists lost their shared monopoly over economic positions in the state.

Economists also lost control over the decision to give qualifications. In order to pass the exam, state employees usually had to take courses in public administration. Some university departments, such as the Economics Faculty, did continue to offer these courses. However, courses outside the Faculty were also organized, which taught "democratic spirit," general legal knowledge, and public administrative policy. The Trade Union Council organized these courses in cooperation with the Ministry of the Interior.[41] Only those with the permission of a ministry could enter these courses. With these new centers of economic administration knowledge, the Economics Faculty no longer maintained its monopoly over the distribution of qualifications.

Even within their own institution, economists had lost some control over their own qualifications. In 1946 and 1947, universities throughout Hungary created evening schools so that workers and others could attend university. In 1947, the government ordered that those who received a certificate for successfully completing

[40]Law 1.150/1945 ME (Magyar Közlöny 1, May 4, 1945:1-2).

[41]Law 10.070/1945 (Magyar Közlöny 2, Oct. 26, 1945: 4-5).

an evening school program should be allowed to enter the regular university program and obtain their doctorate.[42] The government also ordered that students at the Economics Faculty could use this certificate as an economics degree and enter the regular day school program to continue their education.[43] Furthermore, the Cultural Ministry had to approve the Faculty's choice of lecturers and students with the help of the Trade Union Council.[44] These rulings weakened the economists' control over their profession by intervening in the qualification process.

Even before 1948, when the Communist Party gained a political monopoly, the Hungarian economics profession was in a weakened state. The profession had already experienced state intervention in the 1930s and 1940s. With its links to the "old Hungary" and regimes of the interwar and Second World War periods, the profession was susceptible to criticism. The new Provisional National Government sought to train workers and peasants for government employment because they did not have connections to the past regimes and because the government desperately needed a large staff of trained personnel. These training programs, the emphasis on political affiliations over expert skills, and new laws about educational qualifications undermined the monopoly economists shared with lawyers over civil servant positions. The economics profession also lost control over its qualification process

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[42] Law 6.760/1947 ME (Magyar Közlöny 2, May 29, 1947: 1-3).

[43] Law 12.690/1947 (Magyar Közlöny 4, Oct. 10, 1947: 2866).

[44] Law 12.700/1947 (Magyar Közlöny 4, Oct. 10, 1947: 2867-2868).

and economics education more generally. The weakened position of the economics profession helped the Hungarian Communist Party impose Soviet economics.

The Party Leaders' Attack on Economics

Hungarian Communist Party leaders sought to impose the Soviet hierarchy of economic work. In this section, I recreate the usual narrative about the destruction of the old economics profession, but with more historical detail than other scholars have used (e.g., McDonald 1992; Péteri 1991, 1993, 1996; Szamuely and Csaba 1998).[45] I later show the continuation of the economics profession in its new form. In this section, I focus on the destruction and discontinuities.

Communist Party leaders could use the weakened position of economic science to implement their plan for economic practice and economic science. Party leaders quickly took control of the economic situation. The new Provisional National Government formed the National Economic Council, which soon became the Supreme Economic Council (SEC) at the end of 1945. Through the SEC leader, Zoltán Vas, the Party influenced economic decisions.[46] The SEC prepared economic policy plans, coordinated the activities of central management agencies to make sure they fulfilled SEC decisions, and reorganized nationalized enterprises and the state

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[45] McDonald (1992) makes a broad study of Hungarian economics with less detail than I have used. In his work, Péteri does excellent archival research, but he focuses on specific events and processes, rather than on producing a broad history of Hungarian economic science.

[46] Vas has been called "the economic dictator of the country" (Felkay 1989: 33). Vas was a very interesting and important character in Hungarian politics. His autobiography reveals much about him and about the secrets events of the early years of socialism (Vas 1990).

(Berényi 1987: 122-123). By 1948, Party leaders had also removed all political opposition and thus gained a monopoly over economic decision-making. Since there were no other political parties, the Communist Party gained control over the ministries as well. Party leaders centralized economic decision-making within the Party's Politburo and its policy-arm, the State Economic Division. As a result, the Party controlled all economic work.

The Communist Party further implemented its hierarchy of economic work in 1948, by establishing the State Control Center (SCC), the agency of controllers.[47] At first, the SCC primarily supervised the activities in the newly nationalized companies. By 1949, the Communist Party had centralized control into the SCC and placed it under the leadership of Ernö Gerö, the Party's second-in-command. Rákosi, through Gerö, was thus closely connected to the controllers. Throughout state socialist countries, top political leaders such as Stalin and Molotov headed state control agencies. Political leaders used state control as a way to force the economy to follow their directives. The SCC worked alongside the National Planning Office as a kind of economic police, enforcing the law that "except in cases of compelling necessity, it is an offense to pursue activities which were substantially at variance with the details of plans, and thus endanger the execution of the detail of plans (Kornai [1957] 1959: 110-111). By its mandate, the SCC had to investigate all ministries, state authorities, public administrative organizations, and state companies

[47] Török (1974) discusses state control in Hungary. Rees (1987) and Boim et al. (1966) discuss Soviet state control. Lampert (1985) presents different types of Soviet control, but focuses on whistleblowers.

at least once a year to ensure that they executed state orders in a planned, efficient way (Magyar állam 1985: 25). If they found "criminal" activity, they were to make a report to the responsible ministry, but they could also fine and reprimand individuals. Controllers thus played a central role in monitoring and motivating economic activity.

To support their own professional authority over economic work, Hungarian Communist Party leaders attacked economic science.[48] Party leaders condemned all social science as having "anti-humanist, irrational tendencies" (Huszár 1995: 16). They presented economics as particularly problematic because it was a "bourgeois" pseudo-science, an ideological cloak for capitalist self-interest (McDonald 1992: 85). As mentioned earlier, Gerő (1948) condemned non-socialist economics as "bankrupt" (p. 655). The national economy demanded scientifically trained economists, who could solve economic problems and show the way toward socialism. In order to train the correct experts, Gerő argued that economic science had to be reorganized along the lines of Soviet economics.

The reorganization of science was generally implemented through the Hungarian Scientific Council (HSC). Party leaders saw that scientific research was in chaos as different ministries directing research with no connection between them. In response to this chaos, Party leaders formed the HSC in 1948 to modernize and direct

[48] From the available evidence, I can only argue that Party leaders presented economics in a negative light for professional reasons. I cannot argue whether or not they believed in the veracity of their attacks.

research and higher education, in order best to serve the needs of the planned economy (Huszár 1995: 24). The HSC was closely tied to the National Planning Office (NPO) because the HSC was to coordinate nationalized science as the NPO coordinated the nationalized economy. Science was also to be subordinated to the needs of production (ibid., 25). The twenty-two members of the HSC evaluated personnel, purged those considered politically suspect, established new institutions, and decided the topics that should be researched (ibid.). Through the HSC, the Party took control of science as a whole.

Generally, the Party gained this control by demolishing old institutions and creating new ones. At the end of 1949, the Communist Party reorganized the Hungarian Academy of Sciences in line with the Soviet system. According to Péteri's (1991) detailed research on the Hungarian Academy of Science, the goal of the reorganization was to create a center to plan and administrate science. Before the war, the Academy had been an honorific institution. After the war, Academy leaders and members themselves realized that they needed to reform the Academy because of the new social and political regime. The Academy membership, however, could not agree on the reform steps. The Party took advantage of the divisions within the Academy to reorganize it according to the Soviet model.

The changes in the Academy were drastic. Of the 265 members, 121 were made "consultative" members, who had no voting or participatory rights, and 21 were expelled from the Academy (Péteri 1991: 291). Social science represented only

5.3% of the membership in 1949, down from 15% in 1946, while the natural sciences represented one half and the humanities nearly one third of the membership in 1949. The social sciences were thus subordinated to the natural sciences. In 1946, economists made up six percent of the Academy membership, but by 1949, there were no economists in the Academy, let alone in the Academy leadership (ibid., 287). As a result, economists could not participate in the new organization that planned science.

The old economics profession lost its control over economics education in 1948. One of the major recommendation of the Party was to have a Marxist-Leninist school of economics. In 1948, the Communist Party closed down the Economics Faculty and established the Economics University based on Marxist-Leninist principles.[49] One third of the approximately 4,000 students from the Economics Faculty were accepted into the new University. Some of the professors from the Faculty were allowed to teach at the new University if they taught non- "worldview" topics and were good experts. The curriculum was radically changed, and new textbooks created. The old economics profession thus lost control over the entire credentialing processes.

The Party shut down another organization of the old profession, the Hungarian Institute for Economics Research (HIER), which had been established in 1928 and was the only independent research institute of the old profession. The Party

[49]Law 9160/1948 (September 25, 1948) and Law 1948 LVII (December 28, 1948) established the Economics University.

closed the HIER in 1949 because it had "a reactionary center" and was "politically unmaintainable."[50] According to Party reports, the scientists at the HIER did science "for its own sake" and even the most communist members could not free themselves from the institute's focus on business cycle research.[51] The economic experts decided that other institutions could do the HIER's activities adequately. One of its main activities, the collection and archiving of international economic articles and reports, could be done by specialists. Other institutions already did the other main task of the HIER, the evaluation of Hungarian and foreign economic data. In place of the HIER, the Communist Party created the Economics Institute run by Péter Erdős and Margit Siklós. The Institute was created to develop Marxist-Leninist economic science and work out theoretical problems related to the planned economy.[52] However, for reasons discussed later, it too was closed in 1952, and thus there were no economic research institutes in Hungary.

The old economics profession also lost its public forums and thus its ability to communicate with its members. In 1948, the Party closed the main economics journal, Economics Review, which had been published since 1895. The Party called it "pseudo-objective" and a "citadel of bourgeois economics."[53] Before closing the

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[50] PIA 276/115/17/1948, pp. 1-2. Report to Zoltán Vas from László Timár and Dr. Siklós at the National Planning Office's Economic Division, Dec. 13, 1948.

[51] PIA 274/12/19/1948, p. 1 (218). Comments to Andor Berei from the National Planning Office's Economic Division about a proposal for the uniform organization of economic research services, May 11, 1948.

[52] HAS 182/2/1950. Letter to Minister from the Economics Institute Division Director, July 18, 1950.

[53] PIA 690/5/1948, pp. 4(6)-5(7). Notes about the economic press to Andor Berei, April 1, 1948.

this journal, the Party set up the Hungarian-Soviet Economics Review as a replacement. In this new journal, authors discussed and promoted Communist Party decisions and theoretical stands. In many years, Soviet economists wrote more than half the articles (McDonald 1992: 89b).[54] The journal Budapest Stock Exchange (Pesti Tözsde) was also closed. The Party placed high-level Communist economists on the editorial boards of the other main economics journals, Economy (Gazdaság) and Economics (Közgazdaság), but eventually shut down these journals too. The Hungarian economics profession was left with only one journal, the Hungarian-Soviet Economics Review, which even Party leaders recognized as publishing "low-level" Russian material.[55] As a result, the Hungarian economics profession did not control its own public, professional forum.

The Party labeled another forum, the Hungarian Economics Association, "reactionary."[56] At the end of 1949, the Minister of the Interior told the Association it

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[54]The following table shows the number of authors with Hungarian names, Soviet names, and other names:

Table 2a: Number of Hungarian and Soviet Authors in Hungarian-Soviet Economics Review

	Number of Hungarian authors	Number of Soviet authors	Other
1947	35	7	0
1948	78	21	0
1949	19	35	0
1950	18	13	0
1951	20	12	1
1952	11	17	2
1953	10	18	0
1954	13	7	0

(Source: McDonald 1992: 89b).

[55] PIA 690/5/1948, p. 46. Notes about the economic press to Andor Berei, April 1, 1948.

[56] PIA 690/5/1948, p. 66. Attachment to note to Andor Berei, March 22, 1948.

had to reorganize.[57] The Party, however, did not have enough politically acceptable individuals to fill the Association and decided to temporarily close it until new cadres were trained.[58] The Association remained closed until 1959. The closure of the Association removed the main venue for public economic discussion.

Between 1949 and 1952, Party leaders successfully destroyed the old Hungarian economics profession and replaced it with a Soviet-styled profession. The Party controlled the new profession and made it subordinate to political concerns and production needs. The Party also imposed its hierarchy of economic work, in which Party leaders made economic decisions, practical planners created plans based on those decisions, and controllers monitored the implementation of the plans, while economists provided Marxist-Leninist justifications for Party-state activities. The sovietization of Hungary meant the fall of economic science.

How Hungarian Economic Science Worked

From what has been said so far, it would appear that Hungarian economic science really was destroyed. Economics seemed to have been eradicated because the public forums of the old profession had been replaced with those controlled by Party leaders. Yet, non-Soviet economics and non-Communist economists remained influential behind the scenes. In addition, both Communist and non-Communist

[57] HAS 182/2/1950. Letter from Farkas Heller of the Hungarian Economics Association to the Hungarian Academy of Sciences about the closing of the Hungarian Economics Association, May 15, 1950.

economists worked in a range of positions, even though the Party had planned for the economics profession to be dominated by theoretical political economy. There were two reasons for the maintenance of the old profession and the expanded role for economists. First, the Soviet economic system that the Party sought to implement was not fully developed theoretically or technically. As a result, the system required specialized skills to function. These difficulties led Hungarian officials to look for help. Second, Hungarian officials saw economists, in particular, as able to provide these skills, whether or not they were Communist. The old economics profession continued to maintain some legitimacy in the economic realm. The continuity between the old and new professions was maintained by the Party leaders themselves. Many of those involved in the imposition of Soviet economics had studied economics in Hungary before 1948. They maintained connections with and retained the knowledge of the past regime. While Party leaders successfully removed the old economics' institutions and public forums, they could not completely impose Soviet economics. Furthermore, the steps taken by Party leaders against the old economic profession continued to have an impact on the new economics profession. In the post-1948 period, economists played a variety of roles and experienced many frustrations in their work, which influenced the profession and the knowledge it produced. The new economics profession arose with connections to the old profession and continued to experience difficulties in their work due to its

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[58] HAS 182/2/1950. Minutes of the Hungarian Economics Association, Oct. 23, 1950.

competition with political leaders and occupations associated with them. This section is a discussion of the difficulties experienced with Soviet economics, the perseverance of the old economics profession to cope with these difficulties, and the experiences of economists in different work environments.

Theoretical Problems with Adopting Soviet Economic Science

Soviet science has often been presented as rigid and dogmatic, as the adherence to ideology even in the face of contradictory evidence, with Lysenkoism as the paradigmatic case. Soviet economic science had changed dramatically just before and during the Second World War in response to theoretical and practical (and not merely ideological and dogmatic) problems. These changes included new ways to control the economy, different interpretations of economic actors, and different roles for economists and other experts. Furthermore, seemingly theoretical debates about definitions and laws always involved important practical issues (Kaufman 1953: 254). The recognition or condemnation of something as abstract as the "law of value" could affect the lives of millions of people because these laws legitimated major policy decisions. When Stalin came to power, he sought to eradicate the "law of value" by eliminating agricultural markets through mass collectivization, which led to famine in the Soviet Union. Unresolved and changing theoretical issues had enormous impacts on the population.

Even in the first decades of socialism, Soviet economic theory had changed significantly. In the early years of the Soviet Union, theorists argued that a political economy (or economics) of socialism was impossible because economists studied commodity exchange relations, which would wither away under socialism.[59] In such a system without commodity exchange relations, political economists would not have an object of study (Bukharin and Preobrazhensky [1919] 1966). In contrast, during the NEP, economists saw this transitional economy as a "mixed economy," an economy consisting of two incompatible systems: 1) a simple commodity economy of poor and mid-level peasant, and 2) a capitalist sector of NEP bourgeois and well-to-do peasants.[60] Until around 1927, one of the last years of the NEP, Soviet economists saw the market as the primary driving force in the economy, while the plan played a subordinate role. However, due to an ideological dislike for some of the economic activities taking place and doubts about whether NEP policies could gather enough agricultural resources for their industrialization program, political leaders started turning away from the NEP after 1925 (Fischer 1994: 226). During this time, Stalin came to power. Uncertainty abounded in the Soviet Union due to politically-oriented arrests, terror, and Stalin's seemingly arbitrary and spontaneous

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[59]This discussion of Soviet economic science is taken from Baran (1944), Dobb (1960), Dunayevskaya (1944), Kaufman (1953), Landauer (1944), Milenkovitch (1971), Miller (1953), Sutela (1991), "Teaching" (1944), and Zauberman (1963).

[60]The NEP began in 1921 and lasted until around 1928 when Stalin rose to power. During the NEP, private property and the selling of products on markets were increasingly allowed, as well as even the private ownership of large enterprises. These private owners were called "NEP men." Stalin ended the NEP in stages at the end of the 1920s.

decisions. Stalin had economists arrested who appeared critical of the system and thus enforced theories of the economy that he preferred. Economists began to claim that the market was merely a corrective to the plan. Economists soon stopped studying value-oriented problems, such as wages, social relations, and prices, but focused only on non-value-oriented engineering and technical questions, such as the technical means to produce a given amount of steel. The 1930s purges of economists forced this transition to technical questions.

There were new developments in socialist economics after Stalin declared in the new Constitution of 1936 that the Soviet Union was a socialist state. With this declaration came a new drive to study the political economy of socialism, rather than the previous study of the transition to socialism. Within a few years, work began on a new political economy textbook to resume the teaching of political economy, which had been abolished in 1928. In order to create this field of study, economists had to rework Marx's categories and theories and apply them to the Soviet economy. The development of the political economy of socialism opened up many issues that could not easily be solved.

An article published in 1944 in the Soviet Union, discussing the new ways political economy was being taught, received excited attention nationally and internationally.[61] The authors of the article stated that the law of value continued to function in socialism. They also argued that political economists should study the social relations of production, rather than technological and engineering problems. The study of social relations would reveal certain economic laws shared by capitalism and socialism, such as the law of value, but these laws would be similar only in form, not in content. As a result, economics became the study of economic laws and of the ways these laws differ in various economic systems.

Before his death in 1953, Stalin (1952) published a treatise on economics and economic problems, which led others to call him "the first revisionist." Stalin wrote that some economic laws transcend economic systems and act as natural forces. He then criticized those who had ignored these objective laws and acted according to their personal whims. Stalin accepted that commodities and exchange relations existed in the Soviet Union, but only outside the socialist sector, specifically in the economy of cooperative farms. Economists thus only had a function in a circumscribed sphere of economic life that included these farms and their interactions with the socialist sector. Stalin predicted, however, that this sphere would disappear, leaving the socialist sphere. As his successors would continue to do, Stalin indefinitely delayed the elimination of commodity production

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[61]The article was called "Teaching of Economics in the Soviet Union" in English, which was published in the American Economic Review (AER) 34 (1944): 501-530. The AER published responses to this article in the same volume. Dunayevskaya (1944) and Landauer (1944) saw this article as a redefinition of Soviet economics with its attempt to present some economic concepts as universal. Baran (1944) condemned the article as merely the "same old twisting" of the ideas of Marx and Engels and questioned whether economic concepts could be considered universal (p. 871).

(Milenkovitch 1971: 43). As a result, political economists did not need to worry about losing their object of study soon.

Stalin spent many pages clarifying definitions, which made the terms more unclear and thus revealed the problems surrounding these definitions. For example, commodity production was a difficult concept to define because socialist commodity production was supposed to differ fundamentally from capitalist commodity production. According to Stalin, socialist commodity production, in contrast to that in capitalist countries, did not exploit wage workers, did not make labor into a commodity, and did not exist within private ownership of the means of production (Stalin 1952: 15). Socialist commodity production was defined only in a negative way. According to Stalin, while this amorphous socialist commodity production would end with the nationalization of all property, commodity production still existed in socialism and should be understood, rather than ignored. As mentioned above, Stalin did not predict when commodity production would end, giving this activity an indeterminate life span. He also claimed that commodity production existed only on collective farms, but he chose not to speak about private trade within the small private sector and the illegal private economy, so the location of commodity production was also unclear. The fact that he spent so much time discussing these definitions reveals the problems surrounding the definitions.[62]

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[62] Economists outside the Soviet Union had serious doubts about whether economic concepts and laws were universal to all economic systems. See Baran (1944: 867).

It was also difficult to separate neatly the form of capitalist economic laws and concepts from their content. Apparently non-ideological concepts often imply other more ideological concepts. Maurice Dobb (1960) has presented this problem well:

> it is only by an astringent process of critical analysis that one can separate out notions from their historical-ideological content and from other institutionally-relative notions with which they are associated, and hence be in a position to discover what meaning (if any) and relevance the former may have when transferred to a qualitatively different social context. In the absence of such a critical examination it may be a sound instinct to oppose such a "transfer," by reason of the large amount of dross that an ounce of gold may bear with it. Yet to oppose is, at the same time, an admission of intellectual poverty – of the immaturity of one's own critical thought. (p. 310)

Dobb uses the example of "elasticity," which is a purely quantitative ratio from mathematics. But this concept in economics implies "demand curves," "indifference curves," and assumptions about individual consumer behavior, which are problematic for socialist planned economies. Though Stalin legitimated the use of capitalist terminology in socialist economics, even he found it difficult to separate clearly the formal terms from their content.

Soviet theories were not fully developed and thus difficult to operationalize. The political economy of socialism had been banned from 1928 to 1936. A definitive text was not created until 1944. Even in 1952, the categories were uncertain and subject to the whims of Stalin. As a result, there was not even an acceptable language of economics. Furthermore, it was difficult to take a stand on any issue because Stalin changed his ideas frequently and violent force supported these changes.

Therefore, it was quite difficult to use Soviet political economic theory in the postwar period.

Technical Difficulties with Adopting Soviet Economic Science in Hungary

Not only were there unresolved problems within economic theory, but Soviet planning methods were difficult to adopt and not fully developed. While some Hungarians had learned Soviet methods through their studies in the Soviet Union,[63] in general, Hungarian planners learned Soviet techniques from Soviet publications and from the Soviet advisor in the National Planning Office (NPO), P. Krilov.[64] Krilov showed planners how to create a Soviet planned economy and wrote reports for the Office about mistakes or deficiencies that he saw. According to Hetényi (1987), who worked in the NPO, Krilov taught them methodological rules, such as how many plants were needed to produce a prescribed amount of goods (p. 84). Hetényi did not find these discussion overtly ideological or directly related to economic policy. Hetényi understood that the Hungarian Party leaders made policy decisions about how much industrial or agricultural production should be planned, while Krilov provided the tools for obtaining these goals (ibid.).

Yet, the amount of explanation that Krilov had to do showed the difficulties with providing the tacit knowledge required to run a Soviet-styled planned economy.

[63]Imre Nagy, who became Prime Minister in the 1950s, had been a researcher at a Soviet agricultural research institute. Andor Berei had a lot of knowledge of Soviet planning, which he brought to his work at the National Planning Office.

Even in 1950, after the Office had been functioning for 3 years, had completed the 3-year plan ahead of schedule, and had implemented the 5-year plan, Krilov wrote pages and pages of criticisms, pointing to problem areas and suggesting answers from the Soviet experience.[65] For example, according to Krilov, the NPO should receive statistical information on a daily basis, use this information to find out why planning was not working correctly, make plans in essential areas, including resource allocation and production costs, and take into account the needs of important consumers (fogyasztó).[66] Krilov also made detailed comments, as in the following excerpt from a report:

> The percentage increase in the rate of profit (excluding the influence of price changes in products and materials) cannot be less than the rate of planned decreases in production costs, while taking into account the percentage of comparable commodity production.
>
> For example, in the case of the five percent decrease in production costs and an 80% share of comparable commodity production, profits must increase by at least four percent, starting from the following calculation (5x80)/100 . . .[67]

Krilov had to provide Hungarian planners with many tricks and formulas for making the Soviet planning system work. The pages and pages of detailed comments and general suggestions are surprising only because, when Krilov made these reports, the

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[64]Krilov's first name was never mentioned in the archival documents.

[65]For example, see folder PIA/276/116/14/1950.

[66] PIA 276/116/14/1950, pp. (65), (90), (107), (114). Reports by Krilov.

[67] PIA 276/116/14/1950, p. 6 (92). Report by Krilov.

NPO had finished one plan and had already embarked on another. Krilov helped Hungarian planners with this system, but it was difficult for him to provide all the necessary information.

It was not humanly possible for Krilov to tell the Hungarians everything, but also, more importantly, the Soviets themselves did not have all the answers. Techniques important to planning, such as input-output modeling and growth models were not developed until after the Second World War (Hetényi 1987: 92). In Hungary, economists had to calculate the whole national income on manual (non-electronic) calculators, which meant long hours of work and little time to revise plans or provide alternative plans.[68] In order to plan, Hungarian economists had to use pre-existing knowledge about planning, pre-existing planning techniques, and economic experts from the old profession, as well as Soviet experts and methods.[69]

The Hungarian Party decision to change the methodology for national income calculations exemplifies how Soviet economic techniques were not fully developed.[70] In 1947, the Hungarian government did not adopt the Soviet mode of

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[68] Personal communication with Maria Augusztinovics in 1996.

[69] The Soviet Union did have developed planning techniques, but 1) new, more powerful planning techniques were just being developed at this time and 2) it was difficult to apply the planning techniques for the large Soviet economy to another country, let alone Hungary with its small, export-dependent economy.

[70] Information for this section came from PIA 690/8, which includes minutes for the meetings on calculating the national income, and from Matolcsy and Varga (1938). On national income accounting in the United States, see Alonso and Starr (1987) and Furner and Supple (1990).

calculation, but rather adapted a previous Hungarian method.[71] The Communist Party controlled the Supreme Economic Council, the top economic policy agency, through Ernő Gerő, the second-in-command of the Communist Party, which meant that the Communist Party probably made this decision (Hetényi 1987: 42). Communist Party leaders did not choose a Soviet method, but rather they used a method created by economists from the Hungarian Institute for Economic Research (HIER).[72]

In the summer of 1948 in preparation for the 5-year plan, the Communist Party held a series of twelve meetings to revise the method for calculating the national income, which included much work done behind the scenes to answer questions raised during the meetings. Members of HIER, the National Planning Office's Economics Department, and the Communist Party's top economic experts were the central figures in these meetings. One of the major problems with the existing method for calculating national income was that the experts at the meeting wanted to include income from non-productive services, but the Soviet method did

[71]For years before socialism, economists had debated about the best means to calculate the national income (Matolcsy and Varga 1938). The changes in economic structure and the emerging political environment reopened this debate. In 1946, the government discussed the 3-year plan, which would begin in 1947. In this discussion, two types of national income methods were presented: the Fellner-Gidófalvy method and the Matolcsy-Varga method. The Fellner-Gidófalvy method calculated the net value of production of material goods. National income would thus include the value produced in agriculture, mining, commerce, transport, industry, and handicrafts minus the materials used. The Varga-Matolcsy method added services, dwellings, domestic work, theater and cinemas, and international payments to the equation. The Fellner-Gidófalvy method had been used for many years in Hungary until the Varga-Matolcsy method became the dominant method in 1938. In 1947, the government decided to use the Varga-Matolcsy method.

[72]Andor Berei, one of the Communist Party's economic experts, stated that when they made the three-year plan they used the Varga-Matolcsy method, but they were not certain it was correct and there had not been enough time to correct it. PIA 690/8/1948, p. 1 (121). Minutes of meeting on national income calculations, June 4, 1948.

not offer a method for doing so. The leading theoretical Marxist-Leninist political economist of the time, Tamás Nagy, stated that England included non-productive services in its national income, while the Varga-Matolcsy method included "incorrect elements." Nagy declared that they had to "find a solution between the two," as well as a system that would help cooperation with the Soviet Union and Eastern Europe.[73]

Those at the meetings were most frustrated by their inability to obtain adequate information for their calculations. One economist from the HIER stated that "if there was good data, there would be no problem with getting the national income."[74] The "objective" methods of the Soviet Union could not work because the Hungarians did not have enough information about agriculture, small industry, trade, and depreciation. They did not know the actual levels of production, and therefore they had to estimate the numbers. Estimation was not "objective" and thus should be rejected as other "subjective" methods had been.

Those in the NPO hired experts from the old economics profession to provide specialized skills for using this method in the new context. NPO officials believed they needed people familiar with the method. These people included Kálmán Mórocz, a professor from the Economics Faculty, Gyula Barsi, a statistician who knew how to calculate national income with this method, and István Varga, who had created the method with Matolcsy, as well as other experts from before the war

[73] PIA 690/8/1948, p. 2 (122). Minutes of meeting on national income calculations, June 4, 1948.

[74] PIA 690/8/1948, p. 2 (91). Minutes of meeting of the agricultural section on national income calculations, June 10, 1948.

(Hetényi 1987: 88). Those in the NPO saw these individuals as able to adapt the pre-war national income method to the new economic system.

The rules of the Soviet economic system were not complete and did not specify how to apply them in the Hungarian situation. Hungarian economists were supposed to include only productive work in the national income, but they also wanted to include services in the national income, for which they did not possess adequate data. As a result of the lack of institutionalized ways of acting, the people at these meetings used pre-existing ways of acting in order to establish the new system. They used a national income calculation that was not Soviet, but incorporated Soviet elements. At the same time, they included their own concerns about productive work and data-collection, which they recognized because of their knowledge from the previous system. Furthermore, after 1948, economists continually worked on improving the national income calculations, suggesting that the Hungarians did not find the Soviet methods acceptable.

The Perseverance of the Past

As mentioned above, some experts from the old economics profession continued working in the new system. In addition to behind-the-scenes experts, there were other continuities. Many demands made by the economics profession before and during the Second World War were realized by the Communist Party after 1948. The realization of these demands reveals the historical continuities in the economics profession, rather than signifying a complete break with the past. It is logical that there would be continuities because individuals from the old profession still remained and it had not been long since the old profession had functioned.

There were many incidences of common professional goals. In 1932, economists called for a national economic council of economic policy experts (Csizmadia 1976: 415). Similarly, in 1943, economists called for an economic chief of staff.[75] The Supreme Economic Council was established in 1945 and led by Communist Party elites. In 1939, the Hungarian Economics Association decided to reprint classics of economic science. It published Adam Smith's Wealth of Nations and Ricardo's Economics and the Fundamentals of Taxation, as well as other texts. The 1950 plan for economic science also made the republishing of Smith and Ricardo a priority.[76] In 1942, economists wanted a centralized archive for statistical information. This archive would establish a common system for documenting and collecting data and provide an overview of the economy. The Economic Documentation Center was created in 1950. Economists continually argued that the government needed more economists to make correct policy. After 1948, the planned economy opened up the possibility for more economists to take part in economic policy than ever before.

[75] Unless otherwise marked, the information about the pre-1948 profession comes from an article commemorating the 50th Anniversary of the Hungarian Economics Association (Magyar Közgazdasági Társaság 1946: 35-42).

[76] HAS 182/2/1950. Outline of the partial plan of the Economics Institute, May 9, 1950.

One of the most important demands of the pre-1948 profession was for an independent Economics University. Since as early as 1911, economists had argued that such a university would modernize Hungary and make it powerful (Mihalik 1995). The economics community got an independent university in 1948. In 1950, the Economics University moved to a new building, providing the space that professors at the Economics Faculty had wanted for years. Students were allowed to specialize and do practical internships, which economists had discussed as possible reforms before 1948.

The reason for many of these continuities was that individuals in the new economics community had close connections with the pre-1948 economics community. A large group of the Party leaders had studied in the Economics Faculty, which meant that they knew the professors, students, theories, and practices of the pre-1948 period. Therefore, even though the economics profession had been radically changed, the new economics community had connections with the old economics community. Unlike leaders in the old profession, Party leaders had the ability to implement the professional goals of the old profession.

A small circle of Party leaders, who had connections with the old profession, formed the new economics profession after 1948. István Friss and János Szita were the most powerful economic experts beside Ernő Gerő. Friss had studied economics at the London School of Economics for a short period of time. Szita had received his doctorate from the Economics Faculty in 1946, along with other important figures in

Hungarian economics: Kálmán Szabó, István Hetényi, István Fogaras, Gyula Hevesi, Edit Varga, and Imre Nagy. The small network of elite economists had direct connections with the old Economics Faculty.

Tamás Nagy was a central figure in this group and the main organizer of the new Economics University.[77] He had received his doctorate in law in 1936 and was a member of the Social Democratic Party in 1932, joining the Communist Party in 1945 (T. Nagy 1986). From 1945, he taught political economy at the Communist Party's Party School. He took exams in economic science, but he never obtained a formal degree in economic science; instead he learned it from reading Marxist and non-Marxist books. He discussed the structure of the future university with students from the Economics Faculty, such as István Hetényi, a non-Marxist apprentice of Farkas Heller in the Faculty, and Kálmán Szabó, who had studied at the Faculty from 1946 (Hetényi 1986: 39). Tamás Nagy asked them their opinion about courses for the new Economics University, but he did not ask them about the teaching staff except in the case of mathematics and languages because he did not make employment decisions.

Two graduates of the Economics Faculty made these personnel decisions: Margit Siklós, who had been a teaching assistant at the Faculty and was a skilled planner, and Edit Varga, who had received her doctorate from the Faculty in 1946 (Szabó 1991: 163). Varga was one of the leaders of the Communist Party's economic

[77] Tamás Nagy was not related to the later Party leader Imre Nagy. To keep them separate, I refer to Tamás Nagy by his full name.

policy department. Siklós wrote numerous criticisms of economists stating that they were "reactionary" and should not teach, but also labeling other economists "vulgarists" who did not feel the essence" of socialism.[78] These criticisms decided the fate of many economists.

While there were other people involved who were not economists, such as Béla Fogarasi who masterminded the university system reform of 1948, these and other elite economists determined the nature of the post-1948 economics profession. They had been trained by the Hungarian economics community and used the previous Hungarian practices and ideas to create a new economic system and economics profession. These economists maintained a continuity with the past, while they espoused a break with it. In an attempt to turn against the practices of the past, they realized the professional goals of those from before 1948, but not necessarily in the way those from the old or new profession intended.

Groups of Working Economists

Beyond the theoretical and technical difficulties with Soviet economics, Hungarian economists had many professional frustrations, which later informed their ideas and professional organization. Two of the main problems were that the economics profession could not train adequate numbers of economists and that the economics profession was internally divided. I now look at these two problems and

[78] See HAS/182/3/1950. Criticisms of the Business and Trade College and Notes on Business and Trade College Lecturer, Tibor Anderson.

then turn to the ways that different groups of economists worked within the new economic division of labor.

The new economics profession could not provide enough acceptable economists to meet the huge demand. Leaders of the new economics community had both a professional and a political problem on their hands. First, they had deemed many previous employees politically unsound. Second, they had quickly trained university students to become professional economists, but these new economists could not provide the same expertise the politically unsound had formerly provided. Since the Hungarian economic profession could not provide enough qualified economists to meet the demand, many organizations and committees could not function. For instance, the organization that was supposed to direct economic science and discuss economic policy, the Permanent Economics Committee, only met twice in 1950 because the members were too busy.[79] The Terminology Committee, organized to determine the proper Hungarian translations of Soviet economic concepts, rarely met and could not find any official to put its decisions into law.[80] Ministries could not fill their positions with politically acceptable economists. The shortage of trained economists and the general disorder in the profession meant that economists could not fill the positions the government offered them and could not organize to better their professional situation or forward economic policy proposals.

[79] HAS 182/6/1951. Note on the functioning of the Permanent Economics Committee, April 11, 1951.

[80] HAS 182/4/1951. Letter to Klara Fejér at the Hungarian Academy of Science from the Dictionary Committee.

The Hungarian economics profession was in chaos and was not prepared for its new role.

A further problem arose because the Hungarian economics profession itself was internally divided. Divisions within professions are not unusual. There is always intraprofessional competition for intellectual authority and economic power. Yet, if professionals do not have any means for unifying, either through common institutions, common workplace experiences, or common professional ideals, however, professions may fall apart or be hindered in their professional work. After 1948, economists were segregated according to their work location. For example, university economists had a very different professional experience from those working in enterprises, state agencies, or the Party apparatus. They also did not communicate much with each other. The Hungarian-Soviet Review of Economics, the journal for the profession, did not link these groups, but rather promoted Communist Party decisions and theoretical stands. The Communist Party had also closed the Hungarian Economics Association, which meant it could not serve as a common institution for economists. With the lack of public forums, economists could not present their ideas inside or outside their profession. The economics professions lacked the institutional structure to form a unified profession. By forming a unified economic science, elite economists would eventually present a unified economic front against political opposition. In the following sections, the different types of economists and their professional problems are explored. These types are economic politicians, applied economists, research economists, and university economics professors.

Economic Politicians

Economic politicians worked at the top of the state and Communist Party institutions and made decisions about economic policy and economic practice. They fused the tasks of politician and economic expert. They also decided how to apply the rules of Soviet economic science that they had received and sought to create new rules. They had long histories with the Party. According to McDonald (1992), the core group of economic politicians after the Second World War included István Antos, Andor Berei, István Friss, István Háy, Tamás Nagy, László Rudas, and Zoltán Vas (p. 65a).[81] Berei, Friss, Háy, Rudas, and Vas had participated in the 1919 Revolution in Hungary and had lived in the Soviet Union for many years before and during the Second World War. In their work, they generally enjoyed professional autonomy and influence, as well as access to information. Furthermore, they connected the economic profession with politics. Háy, Rudas, and Tamás Nagy organized the new economics profession and gave ideological advice to the Party. Others, such as Friss, Berei, Antos, and Vas, provided economic policy advice based on the work of other economists.

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[81] McDonald (1992) uses the term "elite economist."

István Friss led the economic politicians as the director of the Communist Party's State Economic Department (SED). Within the SED, Friss had a staff of economists working for him, which is discussed below. In the SED, economists had three main tasks: 1) writing popularizing articles for newspapers and journals, 2) compiling reports on the economic situation, and 3) making policy proposals. Shortly after Stalin's death in 1953, Friss published an article that exemplifies the popularizing work of economic politicians. In this article, Friss (1953) praised Stalin's 1952 book about economic problems and clarified its ideas about economic laws and the nature of socialism. By clarifying these ideas, Friss showed that Hungary was on the path to socialism, a goal that the Soviet Union had already achieved. He stated the next necessary steps toward socialism, which were to increase production, end the cooperative farm system, and improve living conditions. While he mentioned some concrete numbers from the Soviet Union's proposed plan, Friss mainly presented a future plan for the transition to socialism and assured the reader that this future would bring great prosperity.

This kind of article becomes understandable when we consider the difficulty (if not impossibility) of studying a system that does not yet exist. According to McDonald (1992), from 1945 to 1950, Hungarian economists wrote mainly about the deinstitutionalization of the market and the institutionalization of the planned economy. Since the planned economic system was not yet implemented, the economists did not have concrete results to study. Economists could have studied the transition to socialism, but these results could be disregarded because the transition was only a temporary situation.[82] Therefore, they promoted the path to socialism agreed on by the Communist Party and discredited the old system. Friss' article is just one example of the practice of making blueprints for the future.

Friss also wrote confidential reports, which he presented to the Politburo and did not publish. These reports included evaluations of the economic situation and policy proposals. For example, on February 5, 1952, Friss compiled a report for the Politburo.[83] The Politburo decided in September and November 1951 to reestimate the 1952 plan based on new trade agreements with the Soviet Union and other Eastern European countries.[84] As a result of these agreements, the Politburo raised the goals of the 5-year plan. In charts, Friss presented the amount of production in forints in each industrial branch for 1950 and 1951.[85] For agricultural production, the amounts were presented in quantities, such as in tons, square feet, or pieces (e.g. millions of eggs). The overwhelming majority of the report was made up of statements about how much production would have to rise or fall in 1952. For example, cement production had to increase by 22.1% from the year before, shoes

[82] McDonald (1992) suggests that the political leaders attempted "permanent reform" in order to avoid the evaluation of the new system.

[83] PIA 276/53/93/1952, pp. 1(23)-19(41). Confidential report by Friss entitled "Main tasks and objectives of the 1952 national economic plan (the Hungarian Workers' Party Political Committee decision)," February 5, 1952.

[84] The September date is certainly correct, but it was difficult to determine exactly whether the Politburo made another decision in November.

[85] Forints are Hungarian currency.

had to increase by 20.2%, and plant cultivation had to decrease by 8.2%. Friss listed the changes he deemed necessary in national income, industrial production, agricultural production, state purchases and retail trade, transportation, foreign trade, and investments.

Finally Friss presented some of the ways these goals would be realized. The means he presented fit within the Soviet hierarchy of economic work imposed in Hungary. According to Friss, labor productivity had to increase, so that production would increase. Productivity would improve with new means of production (capital goods), "better organization of production, the spread of systematic manufacturing, the introduction of new production methods and socialist work competition developed to a new higher level."[86] In addition to these, production costs had to decrease. Friss presented the problems of the economy as arising from poor productivity, which in turn was caused by poor organization of work and a lack of worker motivation. The solutions of organization and motivation were not in the realm of economic science at this time. The State Control Center and Communist Party committees in every enterprise worked together to enforce the plan directives and to motivate workers to fulfill the plans usually through socialist work competitions. Within the Soviet division of labor, economic politicians dealt with

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[86] PIA 276/53/93/1952, pp. 17 (39). Confidential report by Friss entitled "Main tasks and objectives of the 1952 national economic plan (the Hungarian Workers' Party Political Committee decision)," February 5, 1952.

policy decisions, evaluated the economic situation, and popularized the path to socialism.

Applied Economists

Before 1954, economists mostly conducted research within state agencies and the Party's SED. These economists tried to solve practical problems, such as improving the techniques for calculating the national income and constructing numerical indicators for labor, material supplies, and production. Staff at the SED, such as István Huszár, wrote the reports presented to the Politburo by Friss and others. Huszár had studied economics and statistics at the pre-1948 Economics Faculty.[87] At the beginning of 1953, the Communist Party hired him to find mistakes in a Central Statistical Office report on the standard of living. This report had shown a decrease in the standard of living, which infuriated the political leaders. Huszár could not find any mistakes in the report, and the political leaders accepted his findings. Huszár continued to work at the SED, writing monthly reports about the economy for political leaders, attending regular meetings at state institutions, and visiting companies.

The employees within this department had been chosen because of their commitment to the Communist Party and the planned economic system. Political leaders would not consider policies that seemed to threaten the political or economic

[87] This information comes from his interview stored at OHA.

system. As a result, SED economists worked within self-imposed constraints arising from their perception of acceptable policies. According to Huszár, there was much discussion and professional freedom within the SED. Friss did not change their reports to make them more positive, but rather trusted the staff to do independent work because they did not question the system. This staff also had access to nearly all economic data and reports. SED economists enjoyed professional autonomy and influence, as well as access to information.

According to Péteri (1994), members of the Central Statistical Office conducted economic research with the support of their director, György Péter. This economic research occurred even though Péter had declared officially that all statistical work could be done with only the four arithmetical functions (addition, subtraction, multiplication, and division) (Kövés 1992b: 2). From most reports, it seems that the atmosphere in the Central Statistical Office was open to economic discussion and debate (Huszár 1990: 92).

Economists also worked in the National Planning Office (NPO). As a minority amongst plan technocrats, economists formed a small enclave in the Economics Division (Szabó 1991: 152). Employees in the industrial and agricultural branches of the NPO calculated the amount of investment and production necessary in terms of material goods. The Economics Division then brought all these smaller plans together and assigned prices.[88] Economists also compared production levels

[88]This process is described in detail in PIA 276/115/29/1948-49, "Proposal to the Economics Committee regarding NPO work methods," no date (written sometime in 1948 or early 1949).

and balanced all the aspects of the plan with each other. They did not, however, discuss economic policy. Creating the plan, plan balances, and indicators was an immense amount of work.

From its beginnings in the late 1940s, economists found the atmosphere at the NPO exciting.[89] People felt like they were the creators of a new world. They even had marches and group singing (Hetényi 1987: 63).[90] Highly-trained economists and employees who had formerly been manual workers worked out the national economic plans together. As time went on, however, the situation became more tense because the economy did not perform as well as it had before 1951 and because the Communist Party continually attacked the NPO for employing "right-wingers," "careerists," "old capitalists," "old intellectuals," and those who "criticized worker cadres."[91] Those labeled as "intellectuals" did not know how long they would be allowed to stay at the NPO. As a result, people became afraid of each other.

From the beginning, women were not welcomed at the NPO, except in secretarial positions. In 1948, Margit Siklós was acting head of the Economics Division, but the president of the NPO, István Vas, did not consider her for the permanent position.[92] The only woman in a high-level position in the NPO was Mrs.

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[89]This paragraph comes from OHA interviews with István Hetényi and Lajos Kónya, who both worked at the NPO.

[90]Hetényi discusses this atmosphere at the NPO. Tamás Nagy (1986) also remembers this type of atmosphere at the Communist Party's Party School (pp. 65-68).

[91] PIA 276/116/15/1950. Report on the professional and social composition of National Planning Office cadres, undated (probably from around October 1950).

[92] HNA XIX-A-16a, 1. Box, I/1-a 1947/48 file. Letter from Vas, May 10, 1948.

Aladár Mód, who headed the Economics Division in 1949.[93] The day after he fired her Vas told his new Economics Division head that he did not want women in the NPO, stating in explicit terms that women were only good for sexual relations.[94] While Vas was still at the NPO, Edit Javorka became the head of the Finance Division in 1951 after graduating from the Economics University. Beyond Javorka, all divisions and departments were headed by men. Some women had high-level positions in the NPO after Vas left, but the NPO never had the number of influential women that the Central Statistical Office had.[95]

NPO research economists experienced an insecure working environment, since they had direct connections with the political leaders of the Communist Party. However, they also wielded much influence because the NPO was particularly powerful between 1948 and 1953. They did not have control over economic policy decisions and were subordinate to the industrial and agricultural branches of the NPO, which were filled with engineers and technicians. These engineers and technicians did not understand the issues raised by economists, such as costs, prices, and motivation. In relation to other types of economists, NPO economists exerted much influence because they worked within a powerful government agency, but they

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[93]The only woman in a high-level position within the NPO was always referred to as Mrs. Aladár Mód in the archival documents I read. Her husband, Aladár Mód, was an important Party ideologue.

[94]This story comes from the OHA interview of Péter Havasi, who became the new Economics Division director in the NPO (1983: 104).

[95]The Central Statistical Office employed Mrs. Aladár Mód and Julia Zala as the second and third in command for decades, as well as many other women throughout the office.

were not secure in their employment and did not wield similar power within their own agency.

Research Economists

While most research was conducted by applied economists in government and state agencies, there were a few economists who conducted research in an environment separate from such agencies. Non-governmental research institutes theoretically freed economists from the concerns of government agencies and allowed them to study broad, general topics. The Economics Institute provided a semi-independent environment, but it had many professional problems.

In 1949, the Communist Party closed the Hungarian Institute for Economics Research (HIER). In place of the HIER, the Communist Party created the Economics Institute, run by Péter Erdős and Margit Siklós. While Erdős had been trained as an engineer, Siklós had been a teaching assistant and student at the Economics Faculty from before 1948. She had a great deal of knowledge about "capitalist" economic science from her university education and about planning from her work in the National Planning Office.[96] The Institute was created to develop Marxist-Leninist economic science and to work out theoretical problems related to the planned economy.[97]

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[96] HAS 182/1/1949. Report by Tamás Nagy, Organization and Personnel Questions about the Economics Institute, Feb. 9, 1949.

[97] HAS 182/2/1950. Letter to Minister from an Economics Institute division director, July 18, 1950.

Since they employed students or recent graduates who had little experience, Siklós and Erdős did most of the work, which was substantial. In 1951, Erdős reported the work that they had accomplished so far.[98] They had conducted research into the system of national economic balances, labor reserves in coal mining, the methods for domestic trade planning, economic history from 1929 to 1933, Hungarian economic history from 1764 to 1848, and the role of local councils in planning in the Soviet Union. They also published the economic results of other socialist countries and distributed them to leading party and economic cadres. They had also worked on an economic dictionary. In addition to research, they had to organize and direct economic science. They made the five-year plan for economic science, reviewed texts, translated Soviet textbooks, and made personnel decisions.[99] The many letters of complaint written by Siklós and Erdős make it obvious that the amount of work was overwhelming.

Document after document coming out of Siklós' office reveals the mayhem that reigned in the Institute and throughout the economics profession. Siklós and Erdős could not find a director for the Institute.[100] They could not find enough trained economists to fill the positions in the Institute. The ones that they did find

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[98] HAS 182/6/1951. Report by P. Erdős, Account of the work accomplished by the Economics Institute, May 21, 1951.

[99] HAS 182/6/1951. Notes on the functioning of the Permanent Economics Committee, includes comments on the Economics Institute, April 11, 1951; HAS 182/6/1951. Memo to Erdős from Klara Fejér at the Hungarian Academy of Sciences, June 19, 1952.

[100] HAS 182/6/1951. Letter from Péter Nagy to Aladar Mód at the Social Review, Oct. 30, 1951.

were either university students or fresh out of university, and were not capable of doing independent research. Every line of these new economists' writing and data had to be read and corrected.[101] The Institute could not get most journals from the Soviet Union.[102] And the list continues on. The task of running the institute and the entire profession, and of actually doing economics research fell on the shoulders of Siklós and Erdős, who could not do it all. This situation continued until 1952 when the Institute was closed.[103] Research economists became a separate and viable group only after 1954.

University Economics Professors and Economics Education

In fall 1948, the new Economics University imposed the Soviet division of teaching and research. The primary task for university professors was teaching, and they were not given the resources or time to conduct research. The experience of university professors resembled the experiences of the rank-and-file in all professions, as described by Freidson (1984). These educators taught students the knowledge created and agreed on by a much smaller group of elite economists. Elite economists also made decisions about teaching staff, courses, and disciplinary

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[101] HAS 182/3/1950. Letter from Siklós to Klara Fejér at the Hungarian Academy of Sciences, Oct. 13, 1950.

[102] HAS 182/6/1951. Letter from Péter Nagy to Aladar Mód at the Social Review, Oct. 30, 1951.

[103] Siklós and Erdős were both kicked out of the Party. Péteri (1996) states that the Party attacked both of them for "Zionist conspiracy" (p. 367). Szabó (1991) also suggests that Erdős was attacked because he implied in a lecture that Rákosi did not do productive work (p. 129).

questions. The rank-and-file economists at the university level were "proletarianized" in that they did not have control over their work and did not have professional autonomy.

Economists had a difficult time establishing the Economics University. To begin with, the Soviet Union could not provide a translated political economy textbook until 1952. In 1950, only four translated Soviet textbooks were available in Hungary. They were about industrial statistics, accounting, statistics, and national economic planning.[104] The teaching staff did not even have a list in Hungarian of the Soviet books available in Hungary. To cope with this situation, elite economists made the translation of Soviet textbooks a top priority.[105] Instead of using textbooks, the teaching staff had their lecture notes copied for their students to study. Yet, many times students did not receive their notes in adequate time to use them for exams.

There were also problems with choosing the students for the University. The University had two main functions: 1) to provide economists with a basic theoretical and worldview training (Rudas 1948: 659) and 2) to scientifically train experts to run the planned economy (Gerő 1948: 652). Not only did the founders of the new Economics University want to train planners, but they also wanted to create a new intelligentsia. The University founders had to choose people with the appropriate backgrounds, who also seemed capable of doing university-level studies. In addition,

[104] HAS 182/2/1950. Letter from Péter Erdős to the Hungarian Academy of Sciences, Aug. 30, 1950. It is uncertain whether the university actually received these textbooks.

the founders had to decide which students from the pre-1948 Economics Faculty could continue their studies at the University. The Communist Party stated that one third of the approximately 4,000 students from the Economics Faculty should be allowed to continue.[106] Selected students interviewed each of the applicants for the University, asking them about their activities before and during the war, educational experience, political viewpoints, and family background.[107]

Many of the new students failed their classes. The Communist Party was especially concerned about the level of drop-outs. In the beginning, one-quarter of the day students and one-half of the evening students dropped out. The number of drop-outs later decreased to 10-15% of the day students and 30-40% of the evening students (Zoltán 1973: 54-55). These drop-outs were in part caused by the fact that people could obtain satisfying employment without university qualifications. Yet, professors in the University claimed that the Cultural Ministry sent weaker students to the Economics University because the best students were sent to other universities

[105] See HAS 182/2/1950. 1950 Plan for the Economics Institute, May 9, 1950; HAS 182/2/1950. Meeting Minutes of the Permanent Economics Committee, May 12, 1950.

[106] As a reminder, the Economics Faculty was part of the Technical University and served as the only institution for university-level economics education before 1948.

[107] More precisely, according to Zsidi (1995b: 614), the students were selected based on an entrance exam, which lasted a day and a half. It included a written portion (with one or two ideological questions), a two hour discussion of political questions, and individual consultation about the political discussion. Different groups of students required a certain number of points to be accepted. Out of a maximum of 25 points, the children of workers required 12 points, those of peasants 13-17, those of civil servants 24, and those of the bourgeoisie were required to get all 25 points. During the exam, the examees had to stay in dorms, so agitators and activists could report on them.

or hired by companies.[108] Many of students also were not ready for university-level training, particular in mathematics, which was essential for planning work. According to reports, students lacked a "basic knowledge" of mathematics, and their exams showed "serious mistakes."[109]

Finally, the Communist Party had difficulties finding appropriate teaching staff. Generally, the University founders argued that the professors at the Economics Faculty were very weak academically and did not have much prestige (T. Nagy 1986: 79; Hetényi 1987: 31). The professors were also said to be too old. One economist remembered that "the old were told to go to hell" (Hetényi 1987: 31). However, the founders also thought some of the professors were excellent, such as Farkas Heller, who was famous outside of Hungary. Heller could not teach in the new University because he was a follower of marginalism (T. Nagy 1986: 79). Marxist economists had long attacked marginalism and its "subjective" stance, perceiving it as ideologically supporting capitalism.[110] The new Hungarian economics could not include marginalism. Professors could teach at the new university if they taught non-"worldview topics" and were considered skilled experts. Mathematics, accounting, and statistics were deemed neutral, non-"worldview" methodological topics (Szabó 1991: 109). There are conflicting accounts about who went to the University, but,

[108] BUES 7/a-I-1/1951, p. 3. Minutes of the University Council, August 17, 1951.

[109] PIA 690/10/1951, p. 3. Summary of University meeting, March 13, 1951.

[110]Marginalism was called "subjective" because it focused on the marginal theory of value rather than viewing value as formed by "objective" basis of production costs (the labor theory of value).

from the 13 full professors at the Economics Faculty in 1948, an accounting professor, a statistics professor, a technical sciences professor, and a mathematics professor were certainly rehired at the new University.[111]

On the whole, the University founders hired top government and Communist Party economic experts as the new professors. For example, the Foreign Trade Minister taught foreign trade courses, and the President of the Statistical Office taught statistics. They had not conducted research or taught before, but they did have information about the economic situation and personal experience with the new economic system.[112] They also had trust and political authority.

Not only did they have to contend with unprepared students, but the University founders and the teaching staff also had to contend with unprepared instructors. One teaching assistant at the new Economics University remembered working with Éva Atlasz, a party cadre, in the statistics department. The staff at the University soon realized she did not have any expertise in statistics or mathematics.

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[111] For certain Robert Kuntner, Ede Theiss, Ernő Baskai and Géza Huszár were rehired. Some say that Dezső Laky (Osváth 1995: 166), Farkas Heller (Sipos 1995: 152), and a geography professor (Hetényi 1987: 40) were also rehired. Some say, incorrectly, that no one was taken to the new university (Zsidi 1995a: 94). I have found a document stating that five professors were taken (including Endre Fülei-Szánto), as well as an institute professor (József Juba), a private docent (György Markos) an economics doctorate (István Fogaras) and others, but this document seems out of place since it was written in 1949 and did not include Communist Party economic experts as professors (HAS 182/1/1949. "Report about the formation of the Economics University," from Kekesi to the Hungarian Academy of Sciences, September 11, 1949).

[112]One professor, Imre Nagy, had done research in the Soviet Union at an agricultural institute.

The staff declared, "if you can't divide, you can't be an economist" (Huszár 1990: 76). Atlasz was replaced by a more knowledgeable expert.[113]

In spite of the chaos surrounding the opening of the new university, the atmosphere was exciting. Many students were factory workers or from peasant families, whose experiences contrasted with the theories of their teachers.[114] One economist who studied in the evening school remembered heated debates during class between workers and teachers.[115] The economics university had lively discussions at its beginnings in large part because the Communist Party's top leaders were professors at the university. Since these leaders made policy and were trusted Party members, they could allow debate within their departments and feel relatively comfortable with the positions they had on issues.

Changes occurred, however, when these leaders had to give all their time to their primary governmental jobs, leaving teaching to others who were not as trusted or as confident to allow debate in the classroom.[116] At the beginning, teaching staff had a lot of autonomy and influence in their departments. Later, the Economics University teaching staff primarily taught and wrote textbooks. They did not conduct

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[113]Atlasz was replaced by Lájos Ollé. It is not clear whether this new employee was any less politically committed than Atlasz, but he was considered skilled in statistics (Huszár 1990: 75-76).

[114]In a report of the admissions committee, in 1951 there were
in the evening branch: 65% workers, 8.2% peasants
in the day branch: 36.8% workers, 19.1% peasants.
BUES 7/a-I-1/1951. Meeting minutes of the University Council, August 17, 1951.

[115]Personal communication with András Bródy in 1996.

[116]The political atmosphere became noticeably worse in 1949 with the Rajk trial.

research because they lacked time, research assistants, and data. Not only did they not conduct research and were actually physically distanced from the sites where research was conducted, but most professors also did not provide policy advice and were physically distanced from the sites where policy was created. They also did not allow free discussion as they had before. One lecturer at the Economics University in 1948/49 said that when Imre Nagy was at the University as a professor in 1948/49 they could freely discuss issues, but this ended in 1949 when he was no longer there (Rainer 1996: 448). The experience of university professors resembled the experiences of the rank-and-file in all professions, using the knowledge created and agreed on by a much smaller group of elite economists. Elite economists also made decisions about courses, disciplinary questions, and the hiring of teaching staff. University economists were "proletarianized" in that they did not have control over their work and did not have autonomy.

These groups of economists could be further divided into smaller groups, but the purpose of this section has been to show the major divisions within the economics profession and their different professional experiences. The economic politicians enjoyed influence and autonomy, while applied economists had some influence, but lacked autonomy and worked within difficult surroundings. Research economists mainly did administrative work and were burdened with a multitude of tasks. They then disappeared as a separate group around 1952. University economists increasingly lost their autonomy and influence, as elite economists spent more time outside the University and other individuals took over their teaching positions. University economists after the early years of socialism did not have much connection with elite economists and practical economists, so they did not take part in economic policy and did not know the results of economic research. Applied economists did not have much contact with economists outside their agencies, except for those that collected data from other state agencies and sometimes presented their findings to the Politburo. This evidence shows that the economics profession was highly divided. Economists did not yet share a common educational institution since the new Economics University had only begun in 1948. They did not have a common professional journal because the Hungarian-Soviet Review of Economics mainly published Soviet articles and articles promoting government policies. Furthermore, economists did not have a common model for an economist. Economists practiced separately in very different realms. In order to promote successfully economic reforms and the economics profession, economists would have to create some kind of professional unity.

Conclusion

After the Second World War, Hungarian economists lost control over their profession and over the jurisdiction of the economy, even as the economy became a central concern for state and society. Economics was seen as an ideologically and politically suspect science. The economics profession soon lost its monopoly over state economic employment. Party leaders took advantage of the weakened position of economics and imposed a new professional structure based on the Soviet model. The Soviet model assumed a dominant role for theoretical political economists within the profession. Party leaders dismantled the institutions of the old economics profession and established new ones based on Marxism-Leninism, which they filled with a new generation of economists.

However, the dismantling of the institutions of the old economics profession did not mean that there was a complete break between the old and new professions. The Soviet economic planning system required knowledge and practices to make it function. Hungarian officials in the state and Party saw economists as the necessary experts for the establishment of the new system because the old economics profession maintained some level of legitimacy and high-level economists in the new system had connections with the old profession.

The new economics profession emerged out of the professional competition between Party leaders and economists over the legitimacy of knowledge about the economy. This competition led to many problems, such as the lack of qualified economists to fill the positions offered by the state and the Communist Party. New economists also had to try to apply Soviet economic science, which was in a state of flux and not fully developed as a theory or a practice. Finally, the economics profession was divided and lacked an institutional structure that could unify the

profession. The continued professional frustrations of economists and their connections with the past influenced the developments of post-Stalinist economics. The imposition of Soviet economics on Hungary had many unintended consequences, which would shape economic science in fundamental ways in the post-Stalinist era.

Chapter III
The Emergence of Reform Economics, 1953-1956

Stalin's death in 1953 led to a period of intense political conflict throughout the Soviet Union and Eastern Europe. In Hungary in particular, the official view of the economy and its needs changed dramatically; this led to new economic and social policies. During the Stalinist period itself, the Party leadership presented the economy and the political sphere as fused, creating a space filled with informants, liars, spies, nationalized companies, politicians, planners, and, finally, with workers who needed protection and discipline. By 1956, the economy had emerged as a place of unsatisfied consumers and misdirected producers. It was widely believed that politicians should leave the economy to consumers and producers, using only prices, loans, profit-sharing, and other financial incentives to interest producers in satisfying consumer demand. The official view of the economy had been fundamentally altered, which led to policies that changed the very nature of the economy.

The new official vision of the economy emerged from "reform economics," a new field highly critical of the existing socialist economy and focused on market-oriented reforms. Reform economics developed in Hungary earlier and in a more radical form, at the time, than in other Eastern European countries. As early as 1954, Hungarian economists published articles criticizing the Stalinist economy. In contrast, Czechoslovakia had reform debates only after 1956, which did not become as critical as the Hungarians' until after 1960 (Havel et al. 1998: 218-219). East Germany had a brief public discussion of economic reform between 1955 and 1957, but, in response to the Hungarian Revolution and Polish protests, East German Communist leaders stopped these discussions (Krause 1998). Poland began its public criticism during the summer of 1956 (Porwit 1998). Economists in these countries probably did discuss the problems of Stalinist economies long before 1956, but these discussions were not made public or official. The official nature of these debates in Hungary exposed the population and Party members, as well as economists themselves, to this new view of the economy, which made market-oriented reforms more acceptable in Hungary than in other countries.[1]

The purpose of this chapter is to understand how reform economics emerged in Hungary. Scholars have generally argued that economic problems caused the emergence of reform economics; the problems created by the Stalinist economic system demanded a change in knowledge. Economists themselves made this argument at the time (Kornai [1957] 1959; Péter 1954), and East European scholars repeated it in later periods (Mencinger 1989; Swain and Swain 1993; Berend 1990). With its emphasis on consumers, prices, and markets, rather than on saboteurs and planners, Hungarian reform economics appears to arise from a direct confrontation with economic problems because the terminology of reform economics resembled Western economic concepts.[2] Yet, this argument does not explain why other Eastern

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[1] Yugoslavia was a special case because the Yugoslav Communist Party leadership had introduced decentralizing reforms early in the 1950s after its break with the Soviet Union.

[2] If one considers the Stalinist economic system and the international situation of the Cold War in the late 40s and early 50s, then the Stalinist perception of the economy might appear more plausible, though more morally problematic, than the reform economic.

European countries facing similar problems did not have a similar change in economic science. The rise of reform economics cannot be explained by pointing to economic problems.

Instead, the political and professional context in which experts work must be understood. I examine the development of reform economists' profession and knowledge in relation to two networks of actors in political and professional conflict. Reform economists entered into an already existing network of political leaders, former opposition members, formerly imprisoned officials, Soviet leaders, consumers, peasants, and many others. To gain economists as allies, groups within this network provided them institutions and resources, in exchange for ideological and political support, as well as expertise. By controlling these institutions, reform economists infused them with their own knowledge and practice, thus spreading their ideas to others. This network also developed a worldview with hegemonic claims as an alternative to Stalinism. This alternative worldview formed the context that made reform economists' ideas and claims understandable and considered correct. Without this hegemonic understanding of Hungarian society, its past, and its future, reform economics would probably not have been considered acceptable by network allies. Reform economists did not directly and unmediatingly see "reality," but rather formed their profession and knowledge within this social and political network.

Reform economists also formed their profession and knowledge in opposition to groups outside this network and within other networks. Reform economics emerged within a field of competing economic experts, namely political economists, controllers, and a small circle of elite Communist Party economists, who also made claims about the economy. Reform economists were successful in their professional claims because of their networks, which provided them institutions, resources, and a hegemonic worldview, and because they had gained a certain level of internal unity. While they had disagreements, by 1956 reform economists had developed a common discourse, a strong sense of identity, and shared institutions. Professional and conceptual unity, along with a strong network, allowed reform economics to emerge in the post-Stalinist period.

In this chapter, I examine these networks, the competing economic experts, and the professional and conceptual unity of reform economists. After a brief summary of the historical context of the period between 1953 and 1956, this chapter begins with an examination of how political leaders in Hungary and the Soviet Union professionalized economics by providing institutional and ideological support for a new economic approach. I then investigate the professional field into which reform economists expanded their work. Within their studies of the economy and proposals for change, reform economists attacked neighboring professionals and promoted a central role for economists. Finally, I examine the professional and conceptual unity that reform economists created by 1956.

Historical Context

Uncertainty and rapid change spread throughout Eastern Europe in the period between 1953 and 1956. With Stalin's death in 1953, political factions and power struggles emerged throughout the Soviet Union and Eastern Europe. Soviet leaders became involved in a prolonged conflict for control of the Communist Party and the direction it should take. They divided into groups in favor of maintaining Stalinism and groups calling for the eradication of Stalinism in varying degrees. The official Soviet party line vacillated among these positions. Eastern Europe followed these vacillations with intense interest and anxiety. Factions arose within Eastern European Communist Parties, reflecting those within the Soviet Communist Party. In Hungary, the Communist Party split into those supporting Mátyás Rákosi, the head of the Party who sought to continue Stalinist policies, and those supporting Imre Nagy, a high-level Party leader and supporter of the new anti-Stalinist policies arising in the Soviet Union.[3]

The political conflict between Rákosi and Nagy brought abrupt swings in policy and political atmosphere. Rákosi had long been the head of the Party. In June 1953, Imre Nagy became the prime minister with the support of the Soviet Union. Nagy declared his "New Course," a reform of economic policy, Party organization, Party practice, and the relationship between the Party-state and the population.[4]

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[3] As a reminder, Imre Nagy and Tamás Nagy were not related.

[4] For more details on the New Course and its consequences, see Barla Szabó (1981), Rainer (1996), and Szabó (1984, 1986).

Power shifts in the Soviet Union, however, stopped these reforms in 1955. Rákosi then regained power and removed Nagy from all his posts. When Khrushchev criticized Stalin in a closed session at the Twentieth Congress of the Soviet Communist Party in February 1956, Rákosi once again fell out of favor. By July 1956, Rákosi lost his position as head of the Party and was sent to Siberia. The Hungarian population increasingly took part in protests and oppositional activity in favor of Imre Nagy and against the Soviet occupation of Hungary. On October 23, 1956, the Revolution began. Imre Nagy returned to power, declared Hungary's neutrality, and allowed non-Communist political parties to operate. At the beginning of November, the Soviets took over the country by force and arrested Nagy. This chapter is about the pre-Revolutionary period, which was defined by this political conflict between Nagy and Rákosi.

Political Allies

Imre Nagy and Mátyás Rákosi vied for power from 1953 to 1956. These two leaders each worked within a network of allies and sought to expand their networks to gain further support for their worldviews and programs. To undermine the economic claims of their opponents, these two political elites incorporated different experts into their networks and professionalized them, giving them institutions, resources, and political support. While Rákosi professionalized controllers and political economists, Nagy did the same for reform economists. Political and scientific competition thus occurred between these two networks. These networks also provided worldviews within which different types of economic knowledge could be understood. With the final removal of Rákosi from power during the summer of 1956, Nagy's worldview became hegemonic, thus providing additional support to reform economists' professional claims.

By the time Nagy became prime minister in 1953, Rákosi already had a developed network. To introduce rapid social and economic change after the Second World War, the Rákosi regime had created allies by supporting heavy industry, metallurgy, the secret police, the National Planning Office, and the social mobility of the working class and peasants. Soviet leaders, particularly Stalin, were also immensely important to Rákosi's legitimacy within the Party. When Stalin died, however, Rákosi lost an important ally, and thus his network was weakened. Soviet leaders also harshly criticized Stalin and Rákosi (Szabó 1984; Robinson 1973). At the same time, the Soviet political scene had become highly uncertain, which meant that Rákosi's other Soviet allies, Viacheslav Molotov and Mihail Suslov, could help him only when they regained power periodically. Rákosi had an unstable network of allies to support his policies.

Nagy had been an oppositional figure within the Party since 1948 and had argued for different methods of leadership for some time (Rainer 1996). The death of Stalin opened up the possibility for the formation of an alternative network to Rákosi's. To challenge Rákosi, Nagy mobilized powerful social groups that had either been neglected or attacked by the Rákosi regime and that supported the New Course. This alternative network included the agricultural sector (the Agricultural Ministry and peasants who continued to work the land), light industry, officials dealing with finance and commerce, professionals and intellectuals, the thousands who had been imprisoned by Rákosi, members of the left-wing student movements from immediately after the war, and the younger generation more generally.[5] These allies benefited in various ways from the changes implemented by Nagy.

Nagy also had Soviet allies who could pressure Hungarian leaders to make reforms. In response to the possibility of uprisings in Hungary and East Germany in 1953, Soviet leaders ordered major changes in political and economic practice in these two countries (Robinson 1973; Szabó 1984: 8; Rainer 1996: 520). While enforcing these orders, the head of the Soviet secret police, Lavrentii Beria, had threatened Rákosi so severely that the Hungarian leader had feared for his life (Vas 1990: 122).[6] Soviet leaders, especially Anastasius Mikoyan, supported Nagy's views (ibid., 232). These leaders gained information about Nagy and his disagreements with Rákosi through the Soviet Embassy in Budapest. The Soviet ambassador Kiseljov and his successor Yuri Andropov were very knowledgeable about Hungary, agreed with Nagy's ideas, and criticized Rákosi in their reports to Moscow (Ebon

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[5] Similar, though not identical, ministerial fault lines appeared throughout socialist countries (Bachman 1991: 220).

[6] In his memoirs, Vas (1990) discusses the two occasions when Soviet leaders called a Rákosi-led delegation to Moscow to listen to condemnations of the policies practiced in Hungary.

1983: 65; Vas 1990: 109, 261).[7] The ambassadors learned about problems and possible crisis areas from many critical reports produced by Hungarian Party and state agencies, as well as from conversations with reformers (Ebon 1983: 66-67; Vas 1990).[8] The ambassadors relayed this information and the ideas of the reformers to Soviet Party leaders (Vas 1990: 108-116). Beyond this important connection with Soviet ambassadors, Nagy benefited from Soviet backing of his reforms and Soviet intimidation of the Rákosi faction. With the support of some Soviet leaders, the reformist faction within Hungary could then implement the New Course.

Rákosi had allied with Stalin and his worldview. According to this worldview, the goal of the economy was rational, efficient, large-scale mass production, which required maximum mobilization and concentration of resources (Róna-Tas 1997: 28-32). The population needed to sacrifice its present situation for a future state of plenty. Rákosi and his colleagues believed that socialism was near, which further legitimated this sacrifice (Szabó 1984: 11). Since these goals were most rational, any problems that might arise could be explained only by external

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[7] Andropov knew Hungarian. Vas (1990) thought that in 1951 Kiseljov had helped Nagy regain his Politburo position, which he had lost two years earlier (p. 133). Kiseljov wrote reports critical of Rákosi, including a report used at one of the June 1953 Moscow meetings with Rákosi (Rainer 1996: 505-506). Vas (1990) claims that he helped write this report for Kiseljov (p. 113).

[8] Szabó (1984) argues that the Hungarian Communist Party leadership did not realize there were economic or political problems (p. 9). The leadership definitely knew that there were problems, but they did not necessarily see these as part of a broader crisis, which might have required significant changes in political or economic practice. Party elites knew about these problems from numerous reports, including a Central Statistical Office report about decreasing living standards, which greatly concerned the leadership (Huszár 1990: 90). Barla Szabó (1981:3-4) and Szabó (1984: 10-14) cite other reports. Rainer (1996) checked rumors that Nagy himself sent reports criticizing Rákosi's policies to Moscow, but could not prove these rumors or rule them out (p. 506).

forces, including capitalists or spies, or internal elements, such as poor organization or individuals who were lazy or worked against the system. Therefore, any problems could be solved by better organization and further enforcement of the existing system.[9]

This worldview included an understanding of the economy and the types of experts required. As discussed in the previous chapter, Rákosi followed the traditional Stalinist view, in which the economy was fused with and subordinated to the political sphere. Political leaders controlled policy, technical planners implemented plans, and controllers made certain the plans were implemented. The main role for economists was that of political economist, who provided theoretical justification for Party policies. Rákosi restricted discussion of economic policy to a small circle of economic experts, in particular the Party's main economic policy department headed by István Friss. This small group maintained strict control over policy-making and over information about the economy; no more than sixty people received regular statistical information between 1949 and 1954 (Péteri 1993). Furthermore, Rákosi had close connections with those who monitored the implementation of economic plans, the "controllers," because Ernő Gerő, the Party's second-in-command, headed their agency and providing them with new institutions

[9] Rainer (1996) agrees that it was difficult for the Communist Party leadership to recognize a crisis because, according to Marxist-Leninist political economy, planned economies do not have crises (p. 489).

and resources. Rákosi and his allies dominated this Soviet-style hierarchy of economic work.

In response to criticisms from the Soviet Union and from within the Hungarian Communist Party, Rákosi altered his understanding of the economy by opening a small area of economic policy to discussion by those outside his circle of experts. Yet, Rákosi restricted reforms to minor changes in the general direction of economic policy, instead of broad reforms of the economy, state, and Party (Szabó 1984: 142-144). For example, in a speech in July 1953, Rákosi maintained much of his industrialization policy:

> In the future we want to produce more coal and more steel than last year, and we must produce more because only that way can we raise the living standards of our people. Compared to the previous situation, the difference will be that we will raise iron, steel, and coal production less than before and, at the same time, increase the production of consumer items. (Barla Szabó 1981: 9)

Even after the reprimands he received in Moscow, Rákosi maintained his industrialization policy, while allowing small changes in economic policy that could be quickly revoked. By separating a small area of economic policy from many other economic and political issues, and opening this area to criticism, Rákosi created a barrier between the economy and politics, protecting politics and himself from criticism and redirecting criticism to economic policy. Rákosi restricted these reforms to small changes in economic policy and restricted the economic realm to his small circle of experts and controllers.

Nagy became the official figure behind the "New Course," which began with a Communist Party resolution for change in June 1953.[10] The New Course was premised on a devastating critique of the Rákosi system and embodied a worldview fundamentally different from that of Rákosi.[11] In a closed Central Committee meeting, Rákosi was personally criticized for his "serious mistakes," which "damaged the connection between the Party, state, and working masses and caused severe difficulties in the economy" (Barla Szabó 1981: 4). The economic mistakes included the policy of forced industrialization, which did not take into account the actual situation of the country, the neglect of agricultural production and consumer needs, the megalomania embodied in the national plans, and the striving for national autarchy (Rainer 1996: 525-526). While Rákosi offered to make some economic policy changes, Nagy declared that Hungary should begin on a New Course toward socialism, which required significant changes in politics, economics, and society. Nagy objected to the restriction of reforms to the economic sphere because such a restriction made it easy to turn back to the old policies (Szabó 1984: 156). For Nagy, the fundamental cause of the problems lay in the organization of the Party-state, especially the personal, arbitrary leadership of the Party elite (Rainer 1996: 526).

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[10] Péteri (1993) supports this view of Nagy: "As the prime minister launching the New Course, 1953-5, Imre Nagy became the central figure of the first wave of communist revisionism (or, reform communism) in Hungary and in the whole of Eastern Europe" (p. 166).

[11] I use the June Resolution and Nagy's first speech as prime minister to understand Nagy's worldview. The June Resolution of 1953 presented the New Course principles to the Communist Party's Central Committee. This Resolution was published in its entirety in the mid-80s (Rainer 1996: 525). Nagy became Prime Minister at the end of June and gave his first speech at the beginning of July.

Rákosi's economic reforms, Nagy argued, would not solve Hungary's economic problems because these reforms did not attack the cause of these problems. Finally, in contrast to Rákosi, Nagy assumed that the economic and policy system in Hungary could be altered, making it different than that in the Soviet Union, while maintaining its socialist character. Nagy's worldview assumed that the way that the Rákosi regime had ruled was wrong and had caused the present crisis, which required significant reforms in politics, economics, and society.

Imre Nagy himself became an important cultural symbol, lending charisma to reforms, his allies, and many other groups even after his death. Nagy sought to move away from the sacrifices and violence of forced industrialization policy, as well as the tense atmosphere of the class war. He publicly emphasized the need for the political and social reforms, which would provide a new connection between the population and the Party-state. In his speeches, he called for "democratic" changes, an increase of lawfulness, responsible governing, assisting, rather than attacking, the intelligentsia, political amnesty, the end of internment camps, the end of the kulak list, and, generally, the end to the Party's attack on society (Barla Szabó 1981: 6-7; Rainer 1996: 534-537). While some regarded Nagy's reforms as "right-wing deviation," for many Nagy became an important cultural symbol, representing just leadership.

Nagy's reforms also opened up a space within the political and economic structure for him and his network. To bolster his demand for both political and economic reforms, Nagy maintained the Stalinist view of the economy and politics as inseparable.[12] At the same time, Nagy (1954b) presented the economy as a realm with its own "objective" laws, which should be given primacy over political ends: "policies arise from the needs of economic development" (p. 523).[13] Claiming that Rákosi's policies had obstructed the effectiveness of economic laws, Nagy argued, "the roots of the problems are much deeper than they first appear," which required that "the mistakes be completely revealed" (Rainer 1996: 522). "The work done until now," he concluded, "has been unsatisfactory" (ibid.). According to Nagy, Rákosi had established an imbalanced economic system, which could not fulfill the requirements for economic development or for building socialism because he had not based economic policy and planning on science. Instead, Rákosi created "a spirit of unscientific dilettantism" (Nagy 1954a: 19-23). Political economy from the Stalinist period could not help because "it did not deal with the problems of transition from capitalism to socialism either in general or in the concrete, and still less dealt with the questions of the functioning of the objective economic laws of socialism" (ibid., 21). Therefore, the deep, previously unrecognized problems of the economy required a new expert and a new science. Through rhetorically privileging economic laws over political ends, Nagy both presented the economy as a new space for experts to control and made the economy itself a source of authority.

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[12] For example, see Nagy (1954b).

[13] Interestingly, Nagy supported his points with Stalin's 1952 text on economic problems in the Soviet Union.

The Professionalization of Economics

In this section, I discuss the ways Nagy sought to implement his reforms and weaken Rákosi by mobilizing reform economists and expanding the economic realm with an army of his own experts. Politics was thus played out on the field of the economy. Yet, economics was also played out on the field of politics. Scholars of Hungarian economic science have recognized the decisive role of political leaders to reform economics (McDonald 1992: 11; Kovács 1992: 322; Péteri 1996: 374). Yet, these scholars have focused on the political control of economics, rather than on the active role economists took in their own professionalization. While economic crises did not determine the details of the professionalization of economics, political leaders also did not determine these details. Instead, economists successfully promoted their professional claims and their scientific knowledge through their political relationship with the Nagy faction. Reform economists formed their institutions, practices, and knowledge within the social context of the time and specifically their network of political allies and others. Nagy himself was an economist and thus was well-acquainted with the desires of established economists, as well as with the practices of economics before 1948. Thus, while Nagy used reform economists to fight his political battles, reform economists also used Nagy to fight their professional battles.

Furthermore, the professionalization of economics created a situation, which political leaders could not quickly or easily reverse. Reform economists took control of the institutions provided by the Nagy faction and imposed on them their own vision of the economy and professional practice. To break the monopoly other experts had over economic authority and make space for their own work and colleagues, reform economists had to gain new institutions and strong political support. These institutions provided reform economists a base from which to extend their knowledge beyond a small circle of practitioners. These institutions also gave the knowledge and practices of reform economists heightened prestige and a sense of permanence. This section deals with the new institutions of economics and the ways these empowered reform economists, while the nature of their knowledge and practices is discussed later.

Being an agricultural economist, Nagy was in a particularly good position to make an alliance with economists. He had been an economic researcher at an agricultural research institute in the Soviet Union, which gave him professional prestige since most employed economists had little research experience (Rainer 1996; Szabó 1991). In Hungary, he had personal knowledge of the economics profession because he had been a professor at the Economics University in Hungary since 1948 and a member of the Academy of Sciences' Permanent Economics Committee, in which top economic experts discussed professional and policy issues.

From his work in the Agricultural Ministry, he also had experience with the concerns of applied economists. Nagy was a powerful member of the economics community and familiar with economic thinking and practices, as well as with the problems facing economists.

Important members of Nagy's army of experts were economists who had suffered during the pre-1953 period. This group, generally, did not have formal economic degrees, but rather worked in economic positions and identified themselves as economists. Indeed, Nagy himself had suffered during the Stalinist period; Party leaders had sentenced Nagy to one year of internal exile in 1949 for his "right-wing views" (Rainer 1996). Other high-ranking Communists, including economists, had suffered similar accusations and punishments.[14] Another economist, Ferenc Donáth, had been jailed on false charges in 1951 and released in 1954, as the result of the changes instigated by Nagy (Péteri 1993: 163).[15] Imre Vajda joined Nagy's group after being in prison on false charges from 1951 to 1954 (Vas 1990: 49). Rákosi personally made Tamás Nagy, the Economics University's main political economy lecturer, divorce his wife because she was politically suspect (T. Nagy

[14] For example, Zoltán Vas (1990) had been removed from his post as president of the National Planning Office and sent to the countryside to be a company director due in part to his refusal to allow the Party to dictate his employment policies. In 1953, Vas expected to be put on trial during anti-Semitic purges connected to Stalin's retaliation against the supposed Doctors' Plot. However, Stalin's death ended this process (ibid., 113). Vas prepared Nagy's economic programs and speeches.

[15] Donáth and Nagy represented factions of the agriculture bureaucracy that did not support forced collectivization.

1986: 104).[16] Tamás Nagy said it was "natural" for him to join Imre Nagy (ibid., 118). Governmental agency directors, such as György Péter of the Central Statistical Office, had to continually protect their employees from attack. Péter Erdős had been removed from the Communist Party and his positions because he was accused of taking part in a "Zionist conspiracy" (Péteri 1996: 367). Many young economists had been declared politically suspect because of their involvement in the People's Colleges Movement.[17] Nagy mobilized these and other disillusioned elite economists to build his economic and political reform programs.

Nagy also mobilized his students and academic colleagues, who formed his central core of advisors: the "Imre Nagy Disciples."[18] From 1948 to 1952, Nagy taught in the Economics University and the Agricultural University, teaching full-time after 1949 when the Party removed him from his leadership posts. Since students respected him as the primary Party agricultural expert and as the embodiment of the success of the Party's agricultural policy, he formed a loyal following at the universities (Rainer 1996: 450). Many of these students and teaching colleagues had also participated in the People's Colleges Movement, had worked on the 1945 land reform, and had only a few years earlier been living on farms. These

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[16] As a reminder, Imre Nagy and Tamás Nagy were not related. When discussing Tamás Nagy, I use his full name.

[17] Megforgatott (1994) has documents about this movement.

[18] This information comes from Rainer (1996: 449-451). I translate "tanítvány" as discipline, but it can also mean student.

students and teachers, as well as the older economic experts mentioned above, helped to develop Nagy's government programs and filled many positions in the Party-state.

Research Economists

Nagy added to this army of economic experts by recreating an old role for economists: the independent researcher. As mentioned in the last chapter, this role had ended with the closure of the Hungarian Institute for Economic Research (HIER) in 1949. While there had been some research conducted in the Marxist-Leninist Economics Institute, which replaced the HIER, the directors of the Economics Institute spent most of their time organizing the profession and doing administrative work. Applied economists conducted research in the Party-state apparatus, but were constrained by the immediate concerns of their agencies. With the opening of the Economic Science Institute (ESI) in 1954, this situation changed, by providing an independent realm for economists to conduct research removed from the problems and concerns of practical agencies.

From its inception, the ESI was the creation of reform economists. Kálmán Szabó, an ally of Nagy, made the plans for the ESI.[19] The secretary for economics within the Academy of Sciences tried to present a separate proposal, but Szabó said that only he would determine the plan for the ESI. Academy of Sciences officials

[19] HAS 183/4/a/1954. Letter from Klara Fejér to István Rusznyak, both at the Hungarian Academy of Sciences, Nov. 4, 1954. In the April 1954 issue of Economic Review, Szabó called for an economic research institute (pp. 62, 73).

were not even allowed to give a opinion on Szabó's ideas, but rather his proposal went straight to the Politburo. The first employees of the ESI were also reform economists. The ESI incorporated the Agricultural Organizational Institute headed by Ferenc Donáth, an ally of Nagy and one of his deputy ministers. Donáth became the deputy director of the Institute (Péteri 1993: 163). Tamás Nagy, an important supporter of Imre Nagy, was one of the founding members of the Institute (ibid., 166). Imre Nagy's graduate students also worked in the ESI.[20] János Kornai, who had been part of a group of pro-Nagy journalists at Szabad Nép, also joined the ESI in 1955 (ibid., 165). The Scientific Council of the ESI, at least in its planned form, was dominated by Nagy supporters, who thus made important decisions about employment.[21] The ESI provided a work environment that reform economists could control and fill with like-minded colleagues.

The ESI immediately began functioning as a workshop for Nagy's reform programs (Rainer 1996: 452). In fall 1954, the ESI worked out the details of his economic program. During this preparation, the dissertations of Ernő Csizmadia and others were used to develop the new agricultural policies (ibid.). ESI economists also wrote confidential reports and published articles developing economic ideas and

[20] The graduate students were Ferenc Fekete, Ernő Csizmadia, and Béla Csendes (Rainer 1996: 457).

[21] HAS 183/1/1954, p. 8. Suggestion to establish the Economic Science Institute, Nov. 5, 1954 (also dated Dec. 6, 1954). The suggested members were István Friss, István Antos, Andor Berei, Zoltán Biró, József Bognár, Ferenc Donáth, Ferenc Erdei, Ferenc Fekete, Arpad Haász, László Háy, Imre Nagy, Tamás Nagy, György Péter, Gergely Szabó, Kálmán Szabó, and Béla Szalai. Nagy supporters included Antos, Berei, Bognár, Donáth, Erdei, Fekete, Imre Nagy himself, Tamás Nagy, Péter, and K. Szabó, who made up 10 out of the 16 members.

promoting Nagy's worldview. Immediately before the Revolution, the ESI once again prepared an economic program for Nagy, but the Revolution made implementing this program impossible. The ESI, however, did hire economists who did not support Nagy or his programs, such as István Friss, Rákosi's top economic expert, who was made the head of the institute. While Friss had been a Stalinist economic expert, he was a close friend of reform economists, such as György Péter (Szabó 1991), and a great asset to the ESI economists (Péteri 1996: 378), as I discuss below. While not all the ESI economists agreed with Nagy, he could rely on the majority of them to determine economic policy tasks, to evaluate the performance of economic measures, and, above all, to discredit Rákosi's policies.

The founders of the ESI also envisioned the institute as the organizational center for the economics profession.[22] ESI economists performed many professional functions, which gave them much influence over their discipline. For example, the ESI took on many of the science policy tasks of the Academy of Sciences, including debating theoretical questions brought up by ESI research, discussing the scientific plans of the ESI, promoting its connections with practical life, and assessed the theoretical and political level of work from ESI going to publication.[23] They also

[22] HAS 183/1/1954, p. 2. Suggestion to establish the Economic Science Institute, Nov. 5, 1954 (also dated Dec. 6, 1954).

[23] HAS 183/1/1954. Suggestion to establish the Economic Science Institute, Nov. 5, 1954 (also dated Dec. 6, 1954).

evaluated economics dissertations and tested graduate students (aspiráns).[24] Until 1957, ESI members dominated the dissertation committees of graduate students (Péteri 1996: 378).[25] In addition, they could organize committees with experts from outside ESI to study economic questions. As a result, the ESI provided an institutional base from which reform economists could powerfully exercised control over the profession.

Nagy and his reform economists did not intend for the ESI to be merely a propaganda machine. According to its founding document, the most important task of the ESI was "the study of scientific problems arising during the construction of socialism."[26] The ESI was created to eliminate the "backwardness" in economic science through the analysis of "reality," rather than texts (I. Nagy 1954a: 22). By studying existing problems and "concrete events," ESI economists made a sharp break with the traditional work of political economic theorists who formed blueprints for future socialism and communism through textual analysis of classical Marxist works. The ESI economists would study the "objective factors" and "concrete practical questions," and thus provide a "scientific basis" for planning and economic

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[24] HAS 183/7/1956. Report originally written by Friss on work and problems at the Economic Science Institute, Feb. 1956.

[25] Péteri (1996) notes that the ESI "ranked first with an unusually high share (47 per cent) of peer positions in the assessment of dissertations from institutes of applied economics and, just as notably, even in terms of their share over dissertation from departments of political economy" (p. 378).

[26] HAS 183/1/1954, p. 2. Suggestion to establish the Economic Science Institute, Nov. 5, 1954 (also dated Dec. 6, 1954).

policy (ibid., 21-22). From the beginning, the economists at the ESI were officially ordered to practice this new research approach.

The ESI provided an environment of autonomy and independence in economic research, which was due in part to Friss' continued political influence. Even though he did not openly support Nagy, Friss did support freedom of scientific research, helped ESI economists to get data, and allowed its researchers to write whatever they wanted for internal ESI use (T. Nagy 1986: 133). Friss also allowed access to Western economics literature. The ESI library had subscriptions to Business Week, Economic Notes, Monthly Review of Credit and Business Conditions, Political Affairs, Survey of Current Business, US News and World Report, and the Wall Street Journal.[27] The library had the works written by the HIER, which the Party had condemned as "reactionary."[28] The ESI also had housed the Economics Document Center, which had originally functioned within the HIER and had provided translations of foreign economics literature and data, as well as Hungarian literature and data. Those in the ESI thus had access to a wide range of materials that had been denied to most economists in the Stalinist period.

In time, ESI economists experienced difficulties in their work. Since ESI's beginnings, economists had to conduct a "long fight for secret data" (T. Nagy 1986:

[27] HAS 183/4/a/1955. Letter from István Rusznyak to Nandor Gyöngyösi, Economics Documentation Center, Feb. 23, 1955.

[28] PIA 276/115/17/1948, pp. 1-2. Report to Zoltán Vas from László Timár and Dr. Siklós at the National Planning Office's Economic Division, Dec. 13, 1948

126).[29] According to the official plan, they were not to collect data, but rather the director would receive statistical information from the Central Statistical Office, the National Planning Office, economic ministries, and other agencies.[30] ESI economists had access to economic data, but they did not have all the data they wanted. In particular, they did not have information about military spending. Data was also often distorted (Swaan 1993: 40). As a result, ESI economists had to find other sources of economic information. One way to avoid these problems was to interview company managers and other officials directly (ibid.). This case study approach became very popular in the 1950s.[31] The inability to obtain certain types of data and the possibility that data might be distorted frustrated many ESI economists.

The ESI also had difficulties getting enough experienced researchers in part because ministries and other institutions paid higher salaries than the ESI. While the official plan had designated 90 members, by the second year ESI had only 72 members.[32] From the original plan for seven divisions, ESI also had only five divisions: general economic, industrial, agricultural, financial, and international

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[29] Péteri (1993) examines the impact of this lack of data on the entire Hungarian economics profession.

[30] HAS 183/4/a/1954. Letter from Béla Molnár to Klara Fejér, both at the Hungarian Academy of Sciences, concerning the Council of Ministers decision about the organization of the Economic Science Institute, December 29, 1954.

[31] Examples of important case studies are those of Bródy (1956) on end-of-the-month rush work, Kopátsy (1956a, 1956b) on state farms, and Kornai (1957) on light-industry. Case studies also became popular again in the 1970s (Swaan 1993: 30).

[32] HAS 183/4/a/1954, p. 7. Suggestion to establish the Economic Science Institute, Nov. 5, 1954 (also dated Dec. 6, 1954); HAS 183/7/1956. Feb. 8, 1956.

economic divisions.[33] Even by early 1956, the industrial and the financial economic departments of the ESI had only directors and no other employees. The employees they did have were "for the most part inexperienced."[34] They lacked "strong Marxist foundational training" and "the desired level of scientific research methods."[35]

Economists also could not freely publish their ideas, even though they could write what they wanted for internal ESI use. They practiced self-censorship by avoiding certain topics or words.[36] For example, instead of using "capital," ESI economists wrote "assets." They were also forbidden from publishing on certain topics, such as workers' living standards. After a while the economists created a writing style to get around the censors. They exaggerated sections that contained politically sensitive topics, which would get cut because "the censors had to repress something" and leave what they really wanted to say.

In spite of these problems, the ESI provided the means to extend reform economics beyond the small circle of economists around Nagy. Nagy provided reform economists with a new role as independent researchers, as well as with the resources and political support necessary to conduct their work. In exchange, ESI economists developed economic programs for Nagy. Yet, the ESI went far beyond

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[33] HAS 183/1/1954, pp. 3-5. Suggestion to establish the Economic Science Institute, Nov. 5, 1954 (also dated Dec. 6, 1954).

[34] HAS 183/7/1956. Report originally written by Friss on work and problems at the Economic Science Institute, Feb. 1956.

[35] HAS 183/7/1956. Report originally written by Friss on work and problems at the Economic Science Institute, Feb. 1956.

[36] This information comes from personal communication with András Bródy in 1996.

helping Nagy. The ESI provided a base from which to influence the economics profession and change the balance of power within it. Reform economists institutionalized their knowledge and research methods within the ESI. They made their research methods possible by obtaining political support and increased access to data. By gaining control of professional functions, reform economists led the discipline in their own direction. They also had an influence on the younger generation through the training of new researchers at the ESI and by providing role models to other economists. The status of researcher also gave the ideas and proposals of reform economists a heightened prestige and acceptability, which helped them in their conflicts with other professions. The ESI was a powerful institution for reform economists, which continued beyond their relationship with Nagy.

Other Professional Gains

While Nagy maintained his political power from 1953 to the beginning of 1955, economists' professional environment improved greatly. Nagy promised a central role to economists in his new system, arguing that economics was so important that it should be placed at the "forefront of the sciences" (Nagy 1954a: 24). Reinforcing Nagy's point, the Third Conference Party Conference in May 1954 had ordered the development of economic science (Szabó 1954). With the opening of the

ESI and the general promotion of the economics profession, economists called 1954 the year of the "revival of economic science" (Szabó 1991: 135).[37]

Nagy's political support brought a change in the standards of professional economic practice. In 1954, Nagy declared the importance of "scientific criticism, the discussion of a wide range of theoretical questions, and the free battle of opinions" (1954a: 22). By comparing the academic criticism of the pre-1953 and post-1953 periods, the change in standards is easily apparent. For example, in 1950, a highly influential economist forbade an economics lecturer from teaching, remarking "He does not understand or feel the essence of socialism."[38] In 1952, another highly influential economist criticized an economist's work as "another variant of the marginalist school" and "in contrast to the principles of progressive economic science."[39] In 1954, however, a participant at an Academy of Sciences' Economics Committee meeting criticized a new statistics textbook as too ideological:

> its entire discussion style was pseudoscientific honey... For example, he said 'Socialist statistics speaks about the working people and speaks to the working people' . . . this could have been said in 1945-46 in a propaganda or popularizing article but not in a university textbook in 1953.[40]

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[37] One economist remembered that, while he worked in the Party administration from October 1953 to December 1954, the majority of those promoted were neither workers nor peasants but rather economists and intellectuals (Szabó 1991: 147).

[38] HAS 182/3/1950. Notes on the Business and Trade College lecturer Tibor Andersen by Margit Siklós to the Academy of Sciences, May 16, 1950.

[39] HAS 182/7/1952. Letter from Péter Erdős to the Academy of Sciences, October 6, 1952.

[40] HAS 183/3/a/1954. Minutes of Permanent Economics Committee, July 19, 1954.

The Economics Committee decided to tell the author to remove the "useless examples and quotations," as well as the parts on statistics in classical Marxist works, and to add more discussion of representative statistics, the law of large numbers, and specific Hungarian economic problems. This is just one example of the broad changes in professional standards and practice during the Nagy period.

Not only did Nagy establish an economic research institute and encourage new professional standards, he also reestablished the Economics Review and closed the Hungarian-Soviet Economics Review. While the Hungarian-Soviet Economics Review, as the sole professional journal, could have united the profession, this journal mainly published Soviet articles and articles promoting government policies, and thus did not provide a forum for Hungarian reform economists. Opportunities for them to publish were extremely "limited," if not non-existent.[41]

The Economics Review provided reform economists with a means for communicating their ideas and practices to the rest of the discipline. This new journal was seen as particularly Hungarian because it was the continuation of the pre-

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[41] In the April 1954 issue of Economics Review, Szabó called for "an independent economic theory journal because the publishing opportunities are limited" (p. 73). Other publications also lacked Hungarian authors. A report from 1953 on the publishing of economics books found the following:

1) Financial book publishing – no Hungarian authors, the readers were mainly Soviet financial and accounting experts.
2) Statistics book publishing – the readers were mostly from Soviet Union.
3) Planning economics book publishing – the only authors were National Planning Office employees in the Soviet Union.
4) Nepszava publishers – no Hungarian authors.
HAS 182/8/1953. Report about the situation in economics book publishing.

1948 Economics Review both in name and in content.[42] The reemergence of this journal signaled a turn toward promoting Hungarian economic science over that of the Soviet Union. Not only did the journal rarely publish Soviet authors, articles by reform economists figured most prominently. The editorial board was particularly open to articles that promoted Nagy's programs and criticized Rákosi's policies. Nagy supporters, including members of his government, dominated the editorial board.[43] Nagy's graduate student, Ferenc Fekete, was also the chief editor of the journal (Rainer 1996). The journal quickly became extremely popular among Hungarian economists. Most economists who worked in the early 1950s remembered the impact that the journal's articles had, particularly those by György Péter. The Economics Review provided reform economists with the only professional forum for economic articles and a means to communicate their ideas.[44]

Similar to the ESI, the Economics Review also promoted a new vision of economic practice. In the first issue, the editorial board declared that articles should no longer use "scholastic" methods, but rather should be based on empirical research

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[42] Szabó helped form the Economics Review and told an interviewer that at that time economists needed an journal like they had before (Szabó 1991: 136).

[43] Tamás Nagy was a member of the Economics Review editorial board. According to his account, the board was very "progressive." Those who were pro-reform were István Antos (director of Party's Planning, Finance, and Trade Division), István Benke, József Bognár, Ferenc Erdei (Nagy's Minister of Justice), Ferenc Fekete, Tamás Nagy, and Kálmán Szabó. Those who were anti-reform were László Hay, György Lázár, and G. Szabó (T. Nagy 1986: 147-148).

[44] Furthermore, pro-Nagy economists were also put on other editorial boards, such as on the board of the Social Review. The editorial board of the Social Review included Kálmán Szabó, Ferenc Fekete, and Andor Berei (Szabó 1991: 125). Imre Nagy also made Antal Gyenes the economic editor of this journal (Rainer 1996: 452).

("Kőzgazdaságtudomány" 1954). In line with Nagy's call for intellectual debate, the editorial board initiated many series of articles discussing common themes. Beyond developing the profession, the editorial board saw the journal as a means to organize economists to solve specific policy problems and provide a "scientific basis" for economic policy (ibid.). The editorial board thus made the claim that reform economists should have an influence on policy. The Economics Review provided reform economists with a means to promote their practices of empirical research and debate, as well as their ideas.

The Nagy regime also implemented a major reform of the universities, making economics training more standardized and rigorous. Reform economists considered the reorganization of the Economics University essential in order to end the domination of theoretical political economy and Marxism-Leninism, which, they argued, did not train students appropriately for employment.[45] As can be seen from the University organization in 1950, the Theoretical-Political Economic Division had originally formed the main part of the Economics University (Zoltán 1973: 55):

1) theoretical-political economy division,
2) teacher training division,
3) industrial economics division,
4) agricultural economics division, and
5) commerce division.

[45] HAS 183/2/1954. Meeting minutes of the Permanent Economics Committee, May 3, 1954.

There was discussion of closing the political economy department, but the political economy department was instead only diminished in importance.[46] By 1955, the sections had changed to

1) general economics faculty (including political economy, finance, planning, economic history, accounting, teacher training),
2) industrial economics faculty (including industrial, agricultural, statistics, and mathematics),
3) commerce faculty (included domestic and foreign trade, law, geography, languages, and physical education), and
4) Marxism-Leninism department (directly under the University rector).

As a result, political economy was made into only one part of a larger general economics division. Furthermore, the Marxism-Leninism Department became marginalized from the general structure of the University (ibid., 58). Within the University, the centrality of political economy was reduced and the department of Marxism-Leninism was separated from the rest of the faculties.

The university reforms also helped to centralize and standardize economics education. Since the 1940s, eight ministries had organized at least 13 different training schools in economics and related fields.[47] In response to the University's focus on general theoretical education, these organizations had established schools to teach their employees necessary technical skills. Other educational institutions also existed, such as the Domestic and Foreign Trade Academy and the Accounting College, which taught subjects similar to those in the University. In June 1953, the

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[46] HAS 183/2/1954. Meeting minutes of the Permanent Economics Committee, May 3, 1954.

[47] HAS 183/2/1954, pp. 2-3. Meeting minutes of the Permanent Economics Committee, May 3, 1954.

Party had closed many of these institutions and planned to shut down the rest, leaving the University as the only institute for higher education in economics. As a result, the reorganization of economics education brought increased standardization.

The reorganization of the Economics University not only improved the training of economists, but it also increased the legitimacy of economic science as a whole. Before the reorganization, those with degrees from the Economics University obtained the same types of jobs with the same pay as those who had degrees from accounting schools.[48] Those graduating from the more applied Domestic and Foreign Trade Academy received the same kind of diploma as those from the Economics University, even though the Economics University required more years of training than the Academy.[49] By reducing the number of students at the University and improving the quality of education for a smaller group, economists sought to enhance the prestige of a degree from the Economics University.[50] The Economics University also became a center for the retraining of graduates from the Stalinist period and the training of Party-state employees without economic qualifications.[51] Through these changes, economists sought to increase the prestige of both the University and the profession, which would lead to better employment and other social rewards.

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[48] HAS 183/2/1954, p. 4. "Problems in the training of high-level economic cadres."

[49] HAS 183/2/1954, p. 4. "Problems in the training of high-level economic cadres."

[50] HAS 183/2/1954, p. 2. "Problems in the training of high-level economic cadres."

[51] HAS 183/2/1954, p. 12. Meeting minutes of the Permanent Economics Committee, May 3, 1954.

Nagy professionalized economic science by creating new institutions, such as the ESI, the new role of independent researcher, and the Economics Review, as well as reforming economics education and supporting critical work and debate. This professionalization changed the power structure within the economics discipline because these institutions provided reform economists with the means to develop and communicate their ideas and practices, and thus break the monopoly other groups had over the discipline. In exchange for this political and professional support, reform economists, and particularly the ESI researchers, developed economic programs for Nagy and promoted Nagy's worldview. Reform economists maintained control of these institutions and infused them with their perspectives, ideas, and practices. As a result, reform economists and their institutions had an impact long after Nagy disappeared.

Professional Conflict

Most of the ideas presented by Imre Nagy and his network were not new. Nagy and his allies extended and created new configurations of existing ideas, practices, and methods in a process of bricolage. For example, Stalin had argued for the use of efficiency calculations and attention to profitability, as well as for a wide range of seemingly "revisionist" economic ideas (Osztrovityanov 1950: 155; Stalin 1952). Hungarian economists could thus reinterpret Stalin's 1952 book for their own purposes. Reform economists also introduced the term "economic mechanism," which Hungarian economists had used sporadically in the pre-war period. The whole network revived "old" ideas. Nagy repackaged criticisms of the Party that he had made before 1953 (e.g. Rainer 1996: 505). Furthermore, as I argued in the previous chapter, members of the new socialist economics professions had maintained a continuity with the ideas and individuals of the pre-socialist economics profession. The Nagy network used existing ideas in new ways, fundamentally altering these ideas.

Reform economists' political alliances shaped their knowledge. Reform economists created their knowledge and practices based on the assumptions of Nagy's worldview, which saw Rákosi's politics and economics as incorrect. The charisma surrounding Nagy and his worldview also spread along his network to reform economists. Their economic ideas took on the qualities of just knowledge. Nagy also assumed that economists should have a role in policy, which led to the centrality of policy questions in reform economists' research. The political relationship between reform economists and Nagy also entailed political dangers. Whenever Nagy lost power, reform economists came under attack. Therefore, in response to political uncertainties, reform economists increasingly sought to avoid overtly political issues and present their work as simply descriptive and scientific. Reform economists also did not publicly criticize individuals, but blamed impersonal elements, such as the "system" or "economic policy." These elements arose primarily out of their connection with Nagy's network.

As Abbott (1988) has argued, professions must always contend with neighboring professions or professions already working within a jurisdiction. Jurisdictions not only contain work tasks, as Abbott shows, but they also involve scientific knowledge itself. Reform economists formed their knowledge and methods in response to other professions, which already worked within the economy and were allied with Rákosi. These professions included political economists, controllers, and Rákosi's small circle of elite economic experts. Reform economists criticized these groups and provided what they argued was a superior form of economic work and knowledge. By refashioning existing ideas and methods to undermine these groups, reform economists altered the nature of these elements, placing them within them within their network. Reinterpreting these elements within reform economics discourse and their network, reform economists remade them as anti-Stalinist and commensurate with the political programs and cultural symbolism of Nagy. With the rise to power of their political sponsor, reform economists gained political support and institutional resources for their professional claims. Therefore, reform economists won their professional disputes in part through political means. The network of the Nagy faction and other competing networks created the context within which economic knowledge and practice developed.

Political Economists

Political economists dominated the economics profession and played a central role in the definition of reform economics.[52] Defining themselves in opposition to this group, reform economists presented an alternative methodology and conceptual framework, which, they argued, were more scientific and useful.[53] While promoting themselves, reform economists sought to reduce the role of political economy in the profession and expand their own participation in the profession and policy-making. Furthermore, the professional claims of reform economists also embodied political claims about the right type of leader. Scientific authority was thus intertwined with political alliances.

Reform economists strongly criticized political economy. According to reform economists, Hungarian economic science was "backward" ("Közgazdaságtudomány" 1954: 1; Szabó 1954: 57). Political economy was criticized for its "separation from real life," poor teaching and research methods, "dogmatism," "vulgarization," and "mechanistic adoption" of the political economy of the Soviet Union (Apró 1954). Political economists practiced "dogmatism" (Nagy 1954a: 21) and only repeated the laws of political economy (Szalai 1954), rather than studying the existing situation and real problems (Kornai [1957] 1959). They were stuck in the old ways of thinking and in "dogma" ([Esze] 1956), rather than seeing

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[52] For a discussion of political economy, see chapter two.

[53] Kovács (1992) agrees that reform economists were united in their condemnation of political economy (p. 308).

the new reality. As a result, economic discussions went in a "scholastic direction" ("Közgazdaságtudomány" 1954: 3). The political economist was thus seen as unscientific and unprofessional.

Through their criticisms, reform economists sought to make space for their own work within a profession dominated by political economy. The Stalinist hierarchy of economic work assigned economists the primary role of political economist. Every university had a political economy department, and every student was required to take political economy classes. At the Economics University, the political economy division was the largest division. Every student had to take state exams in political economy and Marxism-Leninism.[54] The University had competitions with cash prizes, in which the largest awards went to the political economy and Marxism-Leninism departments.[55] Political economists also dominated the only professional economics journal, Hungarian-Soviet Economics Review. Political economy and political economists dominated the professional institutions of economics and thus could dictate the nature of the field.

When criticizing political economy, reform economists made both conceptual and methodological claims for the superiority of their own expertise. Conceptually,

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[54] BUES 7/a-I-1/1952. University Council, April 2, 1952.

[55] BUES 7/a-I-1/1952. University Council, March 5, 1952. According to Péteri (1996), Hungarian economic science was in fact controlled by the Communist Party's Agitation and Propaganda Division. This division controlled the profession through the University's Political Economy Department. As a result of this alliance, political economy had a privileged position in the University before 1953. However, Péteri does not show all his evidence for this point, which weakens his argument.

reform economists argued that political economists had, as Kálmán Szabó (1954) claimed, mistakenly thought that they could simply adopt the planning system and economic science from the Soviet Union. However, Szabó cautioned, "The construction of socialism – beyond the essential similarities – proceeded in significantly different conditions in each country, as a consequence of changes in the international situation and the peculiarities arising from the historical development of each country" (ibid., 60). Political economists had considered the Soviet model "valid for all times and all cases" and thus had not recognized that Hungary had a different "transitional" economy (ibid., 69). Political economists had, in a sense, failed to study the Hungarian economy at all. Reform economists thus argued that they had an important role as economic experts.

Methodologically, reform economists called for the empirical study of the economy, in contrast to the practices of political economists. According to reform economists, no one did empirical research on the economy. Reform economists claimed this neglected practice.[56] Kornai ([1957] 1959) argued that before 1953 all books did not describe "how our economic mechanism really works, they merely described how it would work if it worked as their authors would wish" (p. ix). In contrast to detailed programs for action, Kornai declared that his research described "reality" (ibid., xi). Similarly, in the first volume of the Economics Review, the editorial board stated that the most important task for economics was to do "research" into "real problems" ("Kőzgazdaságtudomány" 1954: 3). Szabó (1954) criticized political economists who never went beyond studying the Marxist-Leninist classics, dealt with narrow, unimportant questions, only propagandized and taught, used facts merely as "ornamentation," relied on quotations rather than analysis, and thus gave a false picture of phenomena. In contrast to political economists, reform economists should conduct empirical research, deal with important economic problems, go far beyond propaganda to critical analysis, use facts critically, avoid playing with quotations, and "strive for complete truth" (ibid., pp. 60-66). By criticizing the lack of research in the work of political economists, reform economists asserted their place within the economy as empirical researchers.

Strangely, many who condemned political economy were themselves political economists or had been recently trained in political economy. Instructors in the Political Economy Department of the Economics University were Nagy supporters.[57] In an interview, the chair of this department, Tamás Nagy, remembered that the Communist Party Center considered his department a bastion of revisionism (1986: 119). Using books from the Stalinist period, these political economists altered their

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[56] McDonald (1992) has asserts that it is impossible to study a system empirically before or as it is established (pp. 14-16). During these periods, individuals point to foreign models and copy them. The Soviet Union was not an unlikely model because its economy was seen as successful at that time. Through the 1960s, many Western analysts saw the Soviet model as a relatively effective means for achieving economic development (ibid., 16).

[57] The Political Economy Department employed Tamás Nagy, Róbert Hoch, Agnes Vértes, Iván Kádár, Kálmán Szabó, and later Péter Erdős, who all supported Imre Nagy (T. Nagy 1986: 89; Szabó 1991).

lectures and seminars to discuss Nagy's ideas. When Rákosi regained power at the end of 1954, the Party examined the department and forced Tamás Nagy to do self-criticism (ibid., 119-120). Yet, research economists at the ESI also continued to study with political economists.[58] Were these political economists criticizing themselves?

While they were criticizing themselves, the focus of their attack was on the political economists who worked within the Rákosi network and dominated the profession. Reform economists often criticized "dogmatists."[59] Szabó (1954), for example, mentioned two groups of dogmatists. The first group were those in the Party's Office of Central Lecturers, who spoke about the historical necessity of forced industrialization and used the principles of Stalin as evidence (ibid., 65). The second group were a group of political economists, and in particular László Háy, who had claimed that living standards had improved when they had not (ibid., 66). These two groups dominated and controlled the economics profession. Rákosi had chosen Háy as the head economist in the Party after 1953 to reestablish the "correct line" in economic science (T. Nagy 1986: 128). Since dogmatists did not share the assumptions of the Nagy network nor the practices of reform economists, political economists, according to reform economists, were not scientific or professional, but merely political pawns. Furthermore, the successes of Rákosi network and the

[58] András Bródy had studied at the Political Economy Department. János Kornai's graduate advisor was Tamás Nagy (Blanchard 1999). Many employees at the Political Economy Department, such as Iván Kádár and Péter Erdős, soon began working at the ESI.

[59] One of the early reform economists confirmed this assertion, when he remembered: "the most fierce enemies of the reformers were the [jehovista] sectarians and the carrierist Stalinists" (Kopátsy 1989: 2).

professional practices of dogmatists threatened the reform economists because dogmatists controlled the profession.[60] When Imre Nagy lost power, reform economists could not gain the additional institutions they needed to establish their knowledge and authority and thus dogmatists could maintain some control over the profession.[61] Scientific authority was bound up with political alliances.

Reform economists' alliance with Imre Nagy provided them the political and institutional resources to separate themselves from political economy.[62] The reorganization of the Economics University had already marginalized political economy and the Marxism-Leninism Department. The ESI assumed control of some professional functions, thus weakening political economists' influence, and provided reform economists resources to conduct empirical work, thus legitimating this work. As the majority on the editorial board of the Economics Review, reform economists spread the ideas of reform economics, while rarely publishing articles of unscientific "dogmatists." By gaining control of institutions, reform economists weakened the professional monopoly of political economists.

Opposition to political economy was a defining feature of reform economics. Reform economists specifically criticized "dogmatic" political economists for being

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[60] In response, reform economists created a "collective front" against Háy and others (T. Nagy 1986: 129).

[61] For example, many economists called for the reestablishment of the Hungarian Economics Association, but the Revolution blocked its establishment.

unscientific and unprofessional. "Dogmatists" had imposed their worldview and hierarchy of economic work on the economics profession. Seeking their own monopoly, reform economists worked to undermine the professional claims of "dogmatists." In their critiques, reform economists also included conceptual and methodological claims that their own expertise was superior to those of political economists. By providing new institutions, resources, and influence, the Nagy network allowed reform economists to differentiate themselves from political economists. The turn toward these ideas and practices emerged out of disputes between reform economists and political economists, as well as between the networks in which they worked.

The Controllers

Not only did reform economists compete with political economists for professional turf, but they also fought with controllers for planning tasks. As mentioned previously, controllers were those who monitored the implementation of economic plans and worked within Rákosi's network. Officials in the Party-state continued to use the solutions presented by controllers even after 1953. Reform economists sought to impose their vision of the economy and their means for monitoring the plan, which brought them into conflict with controllers. Through their

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[62] According to Péteri (1996), in the post-1953 period, political economy became weakened and separated from economic science (p. 378). The compromise between reform economists and the Nagy faction included the separation of political economy from economics (ibid., 379). Kovács (1992) also recognizes the separation of Stalinist political economy from reform economics (p. 323).

criticisms of controllers' work, reform economists argued that they themselves had a better way of both studying and monitoring the economy. From their vision of the economy as a "mechanism," reform economists argued for significant economic reforms, which would remove the need for controllers. Furthermore, the fate of reform economists and controllers changed with the fate of their political sponsors.

Reform economists and controllers had very different work practices. To controllers, companies could not function efficiently on their own because self-interested employees, "vestiges of capitalism," and "enemies" sought to undermine the entire planning system (Házi 1951: 600). These elements caused a wide-array of phenomena, including a lack of work discipline, inattention to the economical use of materials, self-serving attitudes, illegal activities, corruption, and the underestimation of resources (Káldor 1949). Controllers thus needed to monitor the activities of companies and force them to follow the plan efficiently. Working within the State Control Center, which functioned alongside the National Planning Office as a kind of economic police, controllers enforced the plan. Due to the nature of their work, this enforcement had to go far beyond examining finances and accounts (ibid., 472). Controllers had to monitor companies on a daily basis and evaluate all their operative decisions (ibid., 474). Controllers were told:

> to fight for better state and mass discipline, increased methodicalness (tervszerűség), the protection of socialist property, the promotion of workers' initiatives, better working conditions, economical labor management, better wages and materials, the effective use of machines, one-person leadership, the spread of independent accounting. . . . to help the socialist transformation of villages, reveal measures that restrain working peasants from building socialism . . . to realize the five-year plan, build socialism, and protect our peace. (Házi 1951: 613)

Therefore, controllers dealt with a broad range of concerns. If controllers found "criminal" activity during their broad investigations, they were to make a report to the responsible ministry, which could lead to arrests and other changes in the company, but they could also fine and reprimand individuals. Finally, this control did not stop at companies, but spread to all government organizations. For controllers, there was no separation of economics and politics; they monitored all state institutions. By its mandate, the SCC had to investigate every ministry, state authority, public administrative organization, and state company at least once a year to ensure that they executed state orders in a planned, efficient way (Magyar Állam 1985: 25). By enforcing the directives of the plan and providing a link between policy makers and the objects of policy, controllers played a central role in monitoring and motivating economic activity.

These tasks were based on a particular view of the economy. Within this view, the economy and the political sphere formed a unified whole, which reflected the worldview of the Rákosi network. Controllers saw companies not as independent but "as organic parts of the socialized economy" (Káldor 1949: 473). In their work, controllers studied how each company was "integrated into the socialist productive system, whether it [was] in harmony with our general economic goals, and the interests and requirements of building socialism" (ibid.). With adequate "work discipline" and "socialist work morality," everyone, they claimed, would want to fill the plan in the most efficient way.[63] Any deviation from the most efficient path was due to the lack of these qualities or, even worse, enemies. To controllers and others within Rákosi's network, enemies were a real concern because of the Stalinist class war (Házi 1951: 607), the perceived threat of another world war, and the developing Cold War. Finally, employees within companies played a dual role. On the one hand, they required further education in order to become more disciplined and stop making mistakes. On the other hand, controllers needed employees as informants, who could provide information about the conditions and problems in companies (Káldor 1949: 474). Therefore, the task of control was "democratized" because controllers included "the masses of workers and peasants" in control work (ibid.). According to the perspective of controllers, the economy and the political sphere formed a unified whole filled with informants, enemies, interdependent companies, politicians, planners, and with workers in need of protection and discipline.

Reform economists presented a very different view of the economy, as exemplified in one of the earliest presentations of this view. In 1954, the director of the Central Statistical Office, György Péter, argued that companies not only could

[63] Káldor (1949) cites these words from Stalin's 1920 speech about controllers (p. 471).

direct themselves, but that they should in fact act independently from the Party-state.[64] Companies had functioned inefficiently because political elites and planners had controlled them too much. Central agencies told companies what and how to produce in such detail that companies disregarded their consumers and produced low-quality products of little use to them. According to Péter, the economy was filled with unsatisfied consumers, which included companies and individual people. Reform economists saw economic problems arising from a lack of concern for consumer demand and not from the lack of work discipline and socialist work morality. In contrast to arrests, fines, and other "administrative methods," reform economists presented a new way to motivate economic work. They called for the use of "financial" or "economic" means to interest companies in fulfilling the plan and to direct their activities. Finally, Péter used a different language than controllers did. He spoke about "supply and demand," "competition," "profits," and "consumers" in a positive way. While recognizing, "One might be concerned about whether there is some kind of right wing deviation in this," Péter assured the reader that Stalin had said they should use capitalist methods against capitalism and that "this will not be some kind of capitalism" (ibid., 322-323). Reform economists and controllers had different views of the economy, its problems, and possible solutions.

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[64] According to Péteri (1993), Péter was "among the first economist ideologues of communist reformism in Eastern Europe" (p. 166). In their scientometric study of the Economics Review, Such and Tóth (1989) claimed that Péter's 1954 publication was "considered a milestone in Hungarian economic reform thought" (p. 1206). Huszár (1990) agreed that this article was very influential (p. 115).

In opposition to controllers' "administrative measures," reform economists called for the near exclusive use of financial incentives. Péter (1954) argued that economic work could not be controlled with merely "administrative methods" (p. 309). Kornai ([1957] 1959) criticized "administrative methods," claiming that they were "incapable" of solving the existing economic problems (p. 116). We can imagine that these economists were condemning rigid bureaucratic procedures, but such an assumption would present the debate in the wrong light; "administrative" had two meanings. Péter and Kornai recognized that "administrative" methods blocked individual initiative and promoted fixed ideas about the nature of economic development. They did not, however, view administrative methods as rational and impersonal procedures based on systematic rules, as in a Weberian bureaucracy, but rather as arbitrary, irrational, and outside legality. This understanding of "administrative" was common in Hungary.[65] In their June 1953 resolution, Hungarian Communist Party leaders condemned the "increase in administrative methods," meaning the large numbers of court cases and arbitrary action taken against the population. (Szabó 1984: 21). Before 1953, hundreds of thousands of Hungarians had been arrested and convicted through "administrative" means,

[65] Kowalik (1992) points to this double-sided understanding of bureaucracy in Eastern Europe. He argues that Hungarian and Polish economists claimed that their states were bureaucratic in the Weberian sense, but in reality they were pre-Weberian, resembling feudal states. I do not make this claim, but rather present economists' own double-sided understanding.

through a variety of state bureaucracies, rather than through legal trials.[66] Thus, "administrative" means the opposite of "bureaucratic" in the Weberian sense. Administrative measures function lawlessly.

Reform economists presented controllers as both immoral and unprofessional. Through their network, reform economists had already been associated with the public image of Nagy as a just leader. By juxtaposing their financial tools to the lawless, unjust methods of controllers, reform economists further enhanced their moral credibility. Financial incentives also appeared as honest and impartial means for economic management. Beyond presenting controllers as immoral, reform economists also criticized them for their unprofessional practices. Reform economists argued that controllers did not solve problems. In 1955, the State Control Center helped organize a "rationalization" program designed to decentralize and debureaucratize the state apparatus, as well as simplify state functions, especially planning.[67] Kornai ([1957] 1959) called the existing control activity "amateurish" in that it failed to understand "the complex economic activity of enterprises" (p. 108). He admitted that the rationalization program achieved some of its goals, specifically

[66] For example, the state protection law of 1950 declared that a person could be sent to an internment camp or imprisoned without a court trial, with a "simple administrative decision" (Vas 1990: 103). Furthermore, the Communist Party's Administrative Department conducted investigations of Party members and disciplined them (Personal communication with András Bródy).

[67] Law MT 535/5/1954; PIA 276/94/777/1955. Report on the rationalization program by Árpád Házi, president of the State Control Center, Jan. 19, 1955. Rationalization of state has had a long history. For a history of Hungarian rationalization, see Csizmadia (1976).

its decrease in administrative staff, but it treated the symptoms and not the problem.[68] If the system of planning and control did not change, the state would eventually return to its overcentralized form. Péter (1954) agreed that those who monitored the economy neglected basic analysis (p. 302). They directed the economy toward many partial tasks, such as reducing waste and encouraging work discipline, rather than the main goal of the economy, which was maximally satisfaction of needs. "Administrative measures" or "agitation" alone would not solve the problems of the economy (ibid., 311). According to reform economists, controllers treated symptoms not problems, did not direct economic activity toward the main goals of the economy, and did not understand the economy. In this way, reform economists argued for their own role in the economy.

Péter and others presented different aspects of this new understanding of the economy, but reform economists did not have a unified research project until they developed the idea of the "economic mechanism." Emerging sometime in 1954,[69] this term became the most important idea in Hungarian economics during the 1950s

[68] Kornai ([1957] 1959) shows that, although the administrative staff numbers dropped in light industry, the numbers were still "remarkably high" (p. 219).

[69] Kornai ([1957] 1959) wrote that in 1955 the economic mechanism was the center of discussion in Hungary (p. 186). There is some uncertainty about who first used this term. Szamuely (1986) states that the expression was first used in discussions to prepare a comprehensive economic policy program ordered by the Central Directorate at the beginning of October 1954 (p. 15). Those involved in the discussions were András More, Ferenc Fekete, and Sándor Kopátsy.

and 1960s.[70] Reform economics used the term "mechanism" as an analogy and metaphor.[71] Reform economists created their knowledge and practices based on the economy acting like a "mechanism," while also using ideas and practices previously available to them. Not only did reform economists find this concept useful, but it also provided a solution to their professional conflicts. Reform economists presented "the market mechanism" as a way to unite politicians' goals and employees' interests, while removing the need for controllers and increasing the roles for economists.

By envisioning the economy as a mechanism, reform economists presented the economy as an object that could be altered, tinkered with, or even exchanged for a new one, just as an engine could be. János Kornai ([1957] 1959) wrote one of the most extensive discussions of the economic mechanism. According to Kornai, the economic mechanism refers "to the methods in <u>use</u> in administering the economy (i.e. to the systems of planning, money, credit, wages, and prices) and to the <u>forms</u> of organization of economic activity" (ibid., 1). The mechanism was generally made up of different smaller "mechanisms," "methods," or "levers." In his model, Kornai specified four "indirect economic" levers and four "direct administrative" levers. The four economic levers controlled investment, the monetary system, the price system,

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[70] This term was forbidden or ignored for some time in other Eastern European countries, but by the late 1970s it had become fashionable in many Eastern European countries and used in official documents (Szamuely 1986: 9-10). In Hungary, by the 1980s, it had become "one of the most often used technical expressions" (ibid., 9).

[71] As Knorr-Cetina (1981) has shown in laboratory research, scientific innovation and research occurs through analogy and metaphor. Scientists find objects, situations, and problems similar. Analogies and metaphors suggest ways of acting and acceptable solutions, which scientists adapt to their local context. Therefore, reform economists transferred knowledge about mechanisms to the economy.

and the wage fund. They were indirect because state authorities did not tell the enterprises exactly what to do, but rather used the enterprises' interests in financial gain to make them do what the state authorities wanted. The four direct administrative levers were the centralized direction of production, the system of material allocation, state regulation of foreign trade, and the system of central allocation of managerial personnel. Through these levers, state authorities told companies directly what to produce, which materials to use, which goods to export, and who could be managers. According to Kornai, state authorities mainly used direct levers, leaving others unused or mobilizing them to buttress central instructions, which meant that the economic mechanism did not work harmoniously or efficiently. Kornai argued that the central authorities should increase the use of economic levers, "real economic forces," and decrease the use of the other levers. Through indirect economic means, the central authorities could utilize managers' and workers' personal financial interests in increasing profits to fulfill plans. The search was on for the correct economic mechanism.

Rapidly, reform economists came to agreement about various issues.[72] Reform economists agreed that the economy did work like a mechanism with many levers. There was a consensus that the existing mechanism did not function well and needed to be altered. Reform economists agreed that any mechanism was an interdependent whole, and thus the present mechanism was also a coherent whole.

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[72] I am not arguing that reform economists personally believed that the economy functioned like a mechanism, but rather that there was a consensus in their presentations of the economy.

Reform economists, however, disagreed about whether this meant that an entirely new mechanism was needed or that the existing mechanism could be "perfected." Kopátsy (1956b) spoke about "perfecting" the economic mechanism. Bródy (1956) asserted that "we should break with those elements of our economic mechanism that have proven to be out-of-date and harmful" (p. 883). By the Revolution, the editorial board at the Economics Review argued that the earlier Party leaders "had created a closed coherent system" ("Népgazdaság" 1956: 1285), which suggested that a new mechanism was necessary, but the editorial board did not state this. Other reform economists called for a new mechanism. In Imre Nagy's 1954 secret economic plan, the authors spoke about "the old mechanism," which had caused "plan bureaucracy," and called for a new mechanism (Barla Szabó 1981: 43-44). Reforms that only changed one aspect of the mechanism would not help because an economic mechanism was necessary that would "eradicate the contradictions of economic life" (Szamuely 1986: 93).[73] Kornai ([1957] 1959) argued that policy makers should not do piecemeal tinkering, but rather have comprehensive reforms, which require overhauling incentives, prices, monetary regulations, and credit (pp. 225-226). In spite of these differences, reform economists did agree on understanding the economy as a mechanism and on the need for significant reform.

Reform economists argued for an economic mechanism with predominantly economic levers, or, as it was later called, a "market mechanism." Kopátsy (1956b)

[73] This is a quotation from a reprint of Balázsy (1955) in Szamuely (1986).

argued that planning must be done "first with economic methods" (p. 545). Péter (1954) also thought financial levers should be the primary means for planning. Published articles did not often mention the term "market," but these economic means clearly were understood as a market mechanism within a planning system. Kornai ([1957] 1959) understood direct levers as encouraging vertical connections and authority, while indirect economic levers created horizontal connections between companies. In contrast to the existing mechanism that primarily used direct levers and vertical connections, Kornai argued for a comprehensive reform to create a mechanism with indirect economic levers and horizontal connections. This "market mechanism" would work within the planning system, linking Party leaders and planners with economic actors. At a meeting in early 1957, Tamás Nagy agreed on a plan for economic reform, which "outlined the future model as a socialist economic model, in which administrative measures play a very small role, and planned direction of the economy happens decisively with economic influencing tools built on the market mechanism" (Szamuely 1986: 202-203). For reform economists, the ideal mechanism was a market mechanism, which had as few administrative levers as possible.

Reform economists presented the economy as relatively autonomous from politics and as self-regulating. State authorities were connected to companies, consumers, and employees through the economic mechanism. Through the predominate use of the economic levers in the mechanism, Party-state intervention would become indirect and regulated. With the correct economic levers, economic actors would act rationally and state authorities would not have to intervene at all. Through profits, prices, and rational economic actors, local company interests would be united with national economic interests. In a committee on reforming the economic mechanism, the economist István Varga spoke about the planned economy as a kind of magic trick:

> If a magician gives a deck of cards to someone, telling them to draw a card from anywhere in the deck, but what he draws will certainly be a Jack of diamonds, I ask: is this a planned economy, yes or no? Whatever he draws, he will certainly draw the card that the magician wanted him to. If it is so, then it is a planned economy. (Szamuely 1986: 205)[74]

Another economist questioned whether planners as magicians always had the means to accomplish this trick. Varga responded that "companies, they should do what they want, but if they see it in their own interests, then they will do what I want; this is a planned economy" (ibid., 206). Economists promised a self-regulating system, with which politics and non-economic actors would only indirectly interact.

The metaphor of the economy as "mechanism" and the way reform economists presented it fit well within the reform network. The term appeared technical and devoid of politics. The economy was merely a machine that needed adjustment. The term was useful because, as Kornai ([1957] 1959) wrote, it "conveys

[74] I use words "Jack of diamonds" for clarity in English, but Varga uses the term "green Jack." A green Jack is a weak card in a Hungarian card deck. Varga's choice of color suggests that the person who draws the card is in a weakened position. In the context of his next sentence, his choice of color reveals that he presents the companies in a weakened position in relation to the planners.

the fact that one is discussing a largely unified piece of machinery" (p. 1). Therefore, problems were not due to individuals, but rather were "necessitated by the workings of the inner logic of our present economic system" (ibid., 217). Reform economists promised that a new mechanism would make planning easier and cheaper, which interested many Party leaders. This concept also interested many economists in research about the mechanism because it opened many new questions. Finally, the concept was based on the main ideas of Nagy's worldview. Reform economists' understandings of the mechanism assumed that the present mechanism created by Rákosi was inefficient, that many economic mechanisms could exist and still be socialist, and that a mechanism based on economic tools would be more just and less violent than the present one. Reform economists presented the existing mechanism and the ideal mechanism within the assumptions and interests of their network.[75]

The self-regulating economic mechanism, however, did have human agents within it: reform economists. Politicians, companies, and consumers required economists to mediate between them. Therefore, arguments about the economic mechanism were also arguments about the role of economists and their knowledge claims. Politicians were supposed to direct the mechanism from outside the economy and, therefore, needed information about the economic situation, analyses of it, and suggestions about the best way to run the mechanism. In the area of commerce both

[75] Once again, I am not arguing that economists necessarily believed this individually. Rather, their choice of metaphor and their training allowed them to transfer knowledge about mechanisms to the context of the economy, thus recontextualizing knowledge about mechanisms.

inside and outside Hungary, government trade agencies needed to study market conditions to ensure an equilibrium of supply and demand (Fenyő 1955: 1167). Those working within these agencies needed to ensure this equilibrium "hour by hour" by continually altering market prices (ibid.). In the area of investments, the Party-state needed to know which investments were most rational. Reform economists offered indicators of investment efficiency, which required expertise to develop and use (Liska and Máriás 1954; Uránszki 1955). According to reform economists' proposals, prices should take into account supply and demand, production costs, and social issues such as subsidies for food, and should be adjusted regularly (Péter 1954). Experience with price setting, market research, and knowledge of individual industries would be needed to establish appropriate prices.[76]

Companies would also require economists. To make decisions about what and how much to produce, companies would have to have information about market demand. Prices ideally would provide this information, but in some cases, such as in innovations, demand could not be measured by prices. Companies would also not necessarily know how to become more profitable. As with all companies, there was a multitude of different decisions that influenced profits in a variety of ways. Should they invest their profits in new machinery this year or hire more people? Or should they use a loan to pay for the machinery and then use the profits to hire more people?

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[76] In Hungary, prices were set within the National Planning Office until 1957, when a separate National Price Office was established. The National Price Office functioned until 1984 (Szép 1997: 1).

Péter (1954) saw the need for this advice at the company level, even if economic tools were used. He suggested using "statistical inspections" of successful and unsuccessful companies to help all companies improve their performance (ibid., 90-91). Instead of telling companies what to produce, as in the present mechanism, these inspectors would provide advice and guidance. Péter recognized that companies required mediators to understand the economy.[77] These were just some of the many ways economists could play a mediating role within the economic mechanism. The seemingly self-regulating mechanism assumed a whole structure of reform economic mediators, who had the expertise to make the mechanism work as if it were self-regulating.

The fate of reform economists and controllers depended on the fate of their political sponsors, Nagy and Rákosi. When Rákosi regained power due to changes in the Soviet Union in 1955, he removed Nagy from his political and academic positions and began a campaign against "right-wing" economists. As allies of Rákosi, controllers benefited from this campaign. In that year, the State Control Center (SCC) implemented a major "rationalization" program, which increased controllers' influence over the economy. First, the rationalization came at a time

[77] The importance of reform economists to companies became more apparent in the 1960s and 1970s as a result of the New Economic Mechanism reform. Party-state officials decided to teach reform economic ideas to company managers to prepare them for the new work environment. Party-state officials also considered establishing computer programs to help managers make production and pricing decisions, which entailed the expertise of reform economists. The Business and Marketing Research Institute was filled with reform economists, including Mihály Laki, Márton Tardos, András Nagy, János Kornai, Kamilla Lányi, and Magda Soós. The reform-oriented Rajk Kollégium also concentrated on education in business management. These were just a few of the ways that reform economists influenced companies.

when Nagy and reform economists were weakened. Since reform economists sought to replace controllers with the market mechanism, reform economists threatened the professional authority of controllers. With his rise to power, Rákosi converted the SCC into the Ministry of State Control, which gave the head of the MSC a seat on the Politburo and gave the MSC increased authority to seize property and arrest individuals.[78] Second, the rationalization specifically increased the controllers' influence because the SCC organized this program. SCC controllers moved large numbers of administrative staff to companies, which were considered arenas of production in contrast to "non-productive" administration, with the hopes that this would decrease the detailed interventions in companies and increase local initiative.[79] SCC controllers also reorganized planning, resource allocation systems, statistical data services, budgeting, and investments. While some controllers may have been demoted or removed from their jobs at the lower levels, the rationalization project required many employees to study the administrative staff situation, plan necessary changes, and implement those changes. Controllers benefited as a group by obtaining a government ministry and by conducting the rationalization program. Finally, the rationalization program worked within the controllers' worldview. In contrast to reform economists' call for a market mechanism and independent companies,

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[78] The Soviet Union had a similar ministry, which had the authority to seize the revenue and expenditures of state institutions, and, in the case of corruption or negligent management, order those responsible arrested (Káldor 1949: 471).

[79] In a report from György Péter to Ernő Gerő on July 1, 1955, Péter states that law 535/5/1954 intended to decrease the "non-productive" employees by 66,906, but the number only decreased by 31,076 (PIA 276/94/777/1955, p. 398-400).

controllers continued their interventions into the operations of state agencies and companies, maintaining their vision of the economy as an essentially political sphere. Through rationalization and the attainment of ministry status, controllers further implemented their practices and visions of the economy.

The removal of Rákosi from power in the summer of 1956 undermined the influence of controllers and Rákosi's worldview. During the Revolution and the brief return to power of Nagy in October 1956, the MSC was dismantled. Once Communist Party leaders reestablished their power in the summer 1957, the SCC was reopened but in a weaker form with a staff of one hundred people and a network of "volunteers," people who held positions within the institutions being examined and who conducted the examinations themselves (Magyar Szocialista 1964: 85-87).[80] While there was still a place for controllers, the new structure decreased their role in the economy.

Even with the professional support of the Imre Nagy government, reform economists still had to contend with controllers who already worked in the economy. Both groups fought for similar professional turf with different ways of understanding the economy and different visions of economic authority. Controllers saw companies as unable to function independently because of individuals seeking to undermine them or because of organizational problems. Companies required constant

[80] The SCC became the Central People's Control Committee (CPCC) in July 1957 (Magyar Szocialista 1964: 85-87). The Communist Party declared that this type of organization would improve control by including the population in monitoring and provide an arena for local concerns to be voiced.

monitoring by controllers to remove these individuals and solve these problems. Reform economists formed their ideas in conflict with controllers and had a professional interests in disproving the controllers' claims to expertise. Reform economists asserted that controllers did not help planning and, in fact, hindered the economy through their immoral, administrative practices. In contrast to administrative methods, reform economists presented the economy as a mechanism. To reform economists, the ideal mechanism was based primarily on a market mechanism and used few administrative tools. Within the Nagy network, the economic tools and market mechanism of reform economics took on the qualities of an impartial, just means to run the economy. While the new economic mechanism was supposed to be self-regulating, this mechanism required a wide-range of economists to act as mediators between the central agencies and companies. The most important concept for Hungarian economics, the economic mechanism, emerged from this conflict between reform economists and controllers for the professional jurisdiction of plan monitoring.

Rákosi's Economic Experts

In their criticisms of political economy, reform economists declared that no one conducted empirical research on the economy in Hungary. However, a small circle of economic experts around Rákosi had been conducting such research for years. As discussed in the previous chapter, applied economists working within party-state bureaucracies compiled reports on economic problems and their solutions. Economic politicians organized this work and presented it to the political elite. Since these economists worked within the network and worldview of Rákosi, they came into conflict with reform economists. Reform economists criticized the work of these elite experts and reinterpreted their research methods within the network and discourse of reform economics. Reform economists thus sought to break into the closed world of policy. By criticizing the work of these elites and having Nagy as a political ally, reform economists successfully gained influential positions in the Party-state.

Rákosi's experts had a different network role and worldview from that of reform economists. In the hierarchy of economic work during the Stalinist period, Party leaders made most decisions on policy and plan objectives, leaving planning experts to figure out how to attain these objectives and others to monitor the implementation of these objectives. As discussed in the previous chapter, those who worked within the economic policy department of the Party worked on these tasks.[81] Since these economists had been chosen because of their commitment to the Communist Party and the planning system, they worked within self-imposed constraints arising from their perception of acceptable policies. Within these constraints, there was much discussion and professional freedom. They also had access to nearly all economic data and reports. At the same time, these economists

[81] In the period covered by the previous chapter, this department was called the State Economic Division (SED). The name was then changed to the Planning, Finance, and Commerce Department.

could not publish their findings; their research was intended only for the Politburo. These economists worked within the Stalinist hierarchy of economic work, in which Party leaders made policy decisions and a small circle of economists worked out the means to implement policy.

These economists also understood phenomena through the worldview of the Rákosi network. The Rákosi worldview assumed that planned economies did not have crises and that the chosen planning objectives were most rational, which meant that any problems could only be explained by external forces, including capitalists or saboteurs, internal employees who were lazy, or internal organizational problems. Any problems could be solved by better organization and further enforcement of the existing system. For example, in September 1953, the Party's economic policy department reported that the improvement in living standards could not be attained as quickly as planned because, aside from problems with the trade deficit and the time needed to convert the economy to consumer production, "as a result of the weak work of Party organizations and the frontal attack of the enemy, work discipline has slackened considerably temporarily."[82] To cope with these problems, the Party leadership needed to evaluate better whether the plan was being accomplished, have measures to ensure its accomplishment, and "rationalize" and improve the work of

[82] PIA 276/53/138/1953, p. 1 [10]. Report by Edit Varga, Plan, Finance, and Trade Division, September 19, 1953. "Enemy" could also mean "opponent" and thus mean Imre Nagy.

the state apparatus.[83] In this way, Rákosi's experts interpreted events within their own worldview and discourse.

Reform economists criticized the methods of elite economists to argue that they themselves should be the elite economic experts. Szabó (1954) criticized elite economists, such as the director of the Party's economic policy department, István Friss, because "they examine individual problems starting from the presupposed soundness of the economic policy objectives" (p. 64). Rákosi's experts did not do scientific analysis, but merely "propagated and justified" economic policies (ibid.). For reform economists, scientific analysis began with a critical attitude toward the Rákosi system. While Rákosi's experts saw the deeper causes of the problems as organizational or disciplinary, reform economists considered this work "shallow" and thus a form of "practicism" (ibid., 70). "Practicism" meant the empirical description of the facts without theoretical generalization or without analysis of deeper causes. Reform economists sought to reveal these deeper causes of the mistakes of the Party-state (ibid., 67). By 1956, the invisible "economic mechanism" was the source of all problems and solutions. For example, Bródy (1956) criticized the measures that had been used to end a particular economic problem called "shock work" because

[83] PIA 276/53/138/1953, p. 15 [24]. Report by Edit Varga, Plan, Finance, and Trade Division, September 19, 1953.

> they did not go as far as the relations hidden behind the phenomena, so they could not stop the causes producing the phenomena . . . These measures did not see the connection between our economic mechanism and shock work, and thus tried to cure the irregularity caused by the mechanism, while leaving the mechanism untouched. (p. 879)

To reform economists, scientific research had to refer to the causes within the economic mechanism, or else this research was considered unscientific.[84] Furthermore, according to reform economists, the lack of real research and the acceptance of existing policy caused serious mistakes in economic policy (Szabó 1954: 73). Only reform economists, who conducted critical scientific research, could help policy makers. By reinterpreting existing empirical research within their own discourse and worldview, reform economists sought to create a place for themselves in the closed world of economic policy.

Rákosi's elites criticized Imre Nagy and his network in return. Publicly, Friss condemned the views of Imre Nagy in spring 1955 (Berend 1990: 29). Even before this event, Friss' department had produced reports critical of Nagy's reforms. In early 1954, Friss' department had already criticized the few economic reforms that Nagy had implemented.[85] While recognizing that the New Course had brought some positive results, the department found numerous economic tensions, including shortages of consumer goods, increasing foreign trade and currency debts, and huge increases in wages and prices. The economic changes of the New Course had caused

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[84] Kopátsy (1956b) explicitly makes this point that "economic tools" must be used (p. 545).

[85] My account of this report is based on Barla Szabó (1981: 25-28).

contradictions and did not have an adequate economic basis, which implied that the government should return to the old policy of the Stalinist period.

The interpretation of economic tensions, as well as the actions taken to resolve tensions, varied according to an individual's worldview, which led to heated controversies. Rákosi's experts determined that economic tensions required a return to earlier practices. Nagy found their report "overly pessimistic and biased" (Barla Szabó 1981: 28). Debates about the economy continued. By the fall 1954, Nagy's experts had made a plan to implement a new economic mechanism. They argued that economic problems had arisen because the methods of forced industrialization remained without essential changes and that "this mechanism is inconsistent with our economic policy and becomes the biggest impediment to the development of our economic forces" (ibid., 44). However, by January 1955, the Party's Central Committee had decided that a return to an emphasis on heavy industrial production was necessary and the term "New Course" disappeared from the press (ibid., 49). The two networks provided different frames, in which to interpret and act upon economic events.

Reform economists gained positions within the Party-state as the result of their political alliances and their claims to expert authority. In Spring 1954, the Politburo condemned Friss for being "dogmatic" and "recalcitrant" (Huszár 1990: 103). He was soon fired from his position for siding with Rákosi (Szabó 1991:

155).[86] Sándor Kopátsy and Ferenc Fekete wrote Nagy's economic program in fall 1954 with the Economic Policy Committee (Barla Szabó 1981: 41). After publishing their work on efficiency calculations, Tibor Liska and Antal Máriás were taken from their university positions and brought into the National Planning Office (Hetényi 1987). According to a person who worked there, they were very influential. György Péter, who directed the Central Statistical Office, brought together a group of reform economists. Finally, with the removal of Rákosi from office in the summer of 1956, the government asked the Economic Science Institute (ESI) to conduct a study of the Hungarian economy from 1947 to 1955 with the goal of placing economic policy on a scientific basis (Barla Szabó 1981: 54). The government later decided that it must take two steps: 1) in 1957, small corrections to the economic mechanism must be taken and 2) in 1958, fundamental changes to the economic mechanism must be realized (ibid.). Through these decisions, ESI economists became central economic experts for Party-state. While Friss and others who were part of Rákosi's network remained influential or retained their positions, reform economists increased their influence. Reform economists successfully expanded the economic realm to include themselves as elite experts.

[86] He was replaced by István Antos of the Financial Ministry, who supported Nagy's programs but continued to consult with Friss (Huszár 1990: 103).

The Unity of the Profession

By 1956, reform economists had gained both professional and cognitive unity. In this section, I examine this unity in the reform camp at János Kornai's dissertation defense in fall 1956. Kornai worked at the Economic Science Institute (ESI) and was a respected younger research economist. His defense was a significant event. Drafts of his dissertation had been circulating beforehand. Several hundred people attended the defense. The defense was reported in most daily newspapers with "highly appreciative comments" (Blanchard 1999: 3).[87] From the defense discussion, it is evident that reform economists shared professional standards, discourse, methods, identity, and institutions. At the same time, the defense also shows the ways that reform economists were divided, primarily by their age and their understanding of the goals of research. However, their similarities were more decisive than their differences. Their unity made them a powerful group within the realm of economic authority.

At the defense, the question was not whether Kornai would pass or not. His work was seen as "pioneering," "scientific," dealing "with questions at the center of debates" ([Esze] 1956: 1495, 1485, 1483), and "there was complete agreement on the question of quality; János Kornai's dissertation was a work of scientific value" (ibid., 1490). A heated debate did arise because of different understandings about the goal of research. The participants in the defense believed that Kornai had consciously

[87] I used an unpublished version of Blanchard (1999), which had different page numbers from the published version.

refused to make his real conclusions overt.[88] Participants argued that Kornai took his dissertation "to the edge of deeper theoretical issues" and had a "correct theoretical attitude," but he did not discuss these theoretical issues (ibid., 1486). To the participants, he had successfully proven that central planning and direction did not exist, which meant that the present system had abandoned the benefits of planning (ibid., 1484). This assertion opened the many "dogmas" of socialist political economy to reexamination (ibid., 1485). The participants wanted him to deal with these theoretical questions. The participants felt that a dissertation should not only explain an economic phenomena, but it should also provide evidence against dogmatic claims. While they acknowledged that the dissertation in its present state was an excellent example of scientific work, they saw that Kornai had not taken his study to, what they considered to be, its logical end.

In his responses, Kornai showed that reform economists were not only divided by their understanding of the aims of research, but also by age. Kornai presented himself as a "young economist" and a "young researcher." He argued that in the past "our economics literature has been characterized by a superficial, scholastic abstraction," in which economists tried to deduce "big" laws ([Esze] 1956: 1487). In his research, he did come across many theoretical problems, but he saw that "the scientific conscience demands that the researcher, and particularly the young researcher, avoid running ahead in theoretical generalizations" (ibid.). His goal was

[88] By participants, I mean those on the dissertation committee and others who spoke during the defense. The speakers were important economists in the Party-state, the ESI, or the university.

to study the "real" processes of economic life and to know the "facts." Kornai presented his research as a new method and as part of the practices of young researchers, who were free from the superficial abstraction of the past and thus superior as scientists, as well as possibly morally superior. For Kornai, young economists must refrain from theorizing and merely describe the economy.

Reform economists' agreements and similarities were more important than these differences. The community shared professional standards, as seen in the dissertation defense, which allowed them to agree that Kornai was doing "scientific" work. They shared the methodology of empirical research, which they saw as scientific and in opposition to speculation and dogma. A common identity as "economists" further unified the profession. Kornai and the participants considered themselves economists. They referred to "our economic literature," "our young economic science," and "we economists" ([Esze] 1956: 1492, 1494, 1490). This identity was bolstered by the images of excellent scientists, such as Kornai and others. They also used a common discourse. Even though they disagreed on issues, the participants used common terms, such as economic mechanism, enterprise autonomy, overcentralization, commodity production, material interests, market relations, competition, and monopoly.[89] To the participants, it was also "clear" that the economic mechanism had to be altered (ibid., 1483). As others had before, Kornai appropriated the research methodology of Rákosi's economic experts,

[89] Kovács (1992) also recognizes the possibility that reform rhetoric could provide consensus in the profession (p. 306).

bringing it into the public forums created by the Nagy regime and reinterpreting it within this discourse. The reinterpretation moved the methodology beyond "practicism" to scientific analysis. Reform economists shared professional standards, methods, identity, and discourse.

This identity was created in response to the images of their common enemies: political economists, controllers, and Rákosi's economic experts. The defense participants saw themselves in stark contrast to "dogmatists" and "practicists." They also criticized the practices of the controllers. Reform economists publicly presented a united front out of necessity. While economists may not have agreed on the use of terms or on the necessary reform steps, they presented their proposals for reform as a unified opinion. Kovács (1992) states that reform economists needed tactical solidarity in order to push through reforms (p. 312). As a result, they did not often challenge each other in public. This tactical solidarity further strengthened their common identity and shared discourse.

Reform economists also had shared professional institutions, which standardized training and socialization into the profession. The Nagy faction had provided reform economists with many institutions, which allowed them to spread their ideas about the mechanism, necessary reforms, and the role for economists within the economy. The new Economics Review provided a forum for relatively unified professional opinion and worldview. The Economic Science Institute created a new role of independent researcher, provided a base for reform economists to solidify and spread their ideas and methodology, and increased their influence in professional training. Economics training was also standardized through reforms of the Economics University. Pro-Nagy reform economists gained control over these professional organizations and thus could spread their shared methods, identity, and discourse.

Finally, the political environment helped bolster a feeling of professional unity. In the summer of 1956, Rákosi had been removed from office and sent to Siberia. His removal delegitimated the worldview and allies of the Rákosi network. Gerö, Rákosi's colleague, continued as the leader of the Party, but his legitimacy had been undermined by the removal of Rákosi. With the removal of Rákosi from office, Nagy's worldview had become hegemonic and thus made reform economists' ideas appear more credible and believable than before.

Reform economists were divided by age and their understanding of the goals of research. Yet, their similarities were more decisive than their differences. They shared common standards, methods, and discourse. They defined themselves in opposition to political economists, controllers, and Rákosi's experts, who worked within Rákosi's network and did not support major economic reforms. Shared professional institutions and the emerging dominance of Nagy's worldview further strengthened this solidarity.

Conclusion

The political, professional, and cultural landscape defined the way that Hungarian reform economics emerged. Reform economists entered into the network around Imre Nagy, which included political leaders, former opposition members, formerly imprisoned officials, Soviet leaders, consumers, peasants, and many others. As they vied for power, Nagy and Rákosi each constructed a network of allies to support their worldviews and programs. To gain the support of experts, Nagy and Rákosi professionalized them, giving them institutions, resources, and political support. Nagy interested a small group of economists in his program and expanded this group by professionalizing the discipline, in order to undermine the economic claims made by Rákosi and his allies. Rákosi, on the other hand, used his long-held allies: the political economists, controllers, and his small circle of economists. Beyond professionalizing these groups, political elites also created worldviews, which made sense of events and professional knowledge. Reform economists imposed the worldview of Nagy, as well as their own discourse, methods, and identity, on their new institutions and forums. These institutions and forums thus embodied a pro-Nagy, anti-Rákosi stance and the cultural universe of the Nagy network. Reform economists formed their profession and knowledge within this network.

Reform economists also developed their profession and knowledge in opposition to groups outside this network and within other networks. Other professions, which already worked within the economy and within Rákosi's network, shaped reform economic knowledge and practices. Therefore, professional and political competition existed between networks. Reform economists formed their methodological claims to empirical research and their conceptual claims to studying the "real" economy in opposition to the "dogmatic," "scholastic" practices of political economists. They successfully ended the professional monopoly that "dogmatic" political economists enjoyed, by gaining resources from their alliance with the Nagy network. In contrast to the administrative methods of controllers, reform economists developed the analogy of economy as mechanism. To reform economists, the ideal mechanism primarily used a "market mechanism," removed any role for controllers, and assumed a broad mediating role for economists in its supposedly self-regulating structure. Finally, reform economists sought to break into the narrow circle of policy-makers. Reform economists undermined the economic authority of Rákosi's experts by reappropriating their empirical research program and showing that they did not do scientific research because they neglected the deep causes of problems, which rested in the economic mechanism. The knowledge and practices of reform economists formed within these professional conflicts.

Due to their network and their hegemonic worldview, as well as their high level of internal unity, reform economists were successful in their professional claims. Though they disagreed on many issues, including the nature of necessary reforms, reform economists had formed areas of professional and conceptual unity, which had already brought results. The Party-state had decided to implement fundamental changes in the economic mechanism and had officially legitimated the idea that the economy should be mediated by a market mechanism. This reform would have provided reform economists with new professional status and a powerful role as mediators embedded within the market mechanism. However, the Revolution began, and the network quickly broke down, which removed the possibility for this new economic mechanism.

Chapter IV
The New Economic Mechanism and the New Economics Profession, 1956-1968

The political and professional network in which reform economists had worked fell apart as a result of the Party's retaliation against the Hungarian Revolution of 1956. Their political sponsor, Imre Nagy, and his close colleagues were arrested and later executed, thus removing the core of this network. Reform economists also came under attack as "revisionists." Within a decade, however, the Party-state had begun to implement the idea of a new economic mechanism that reform economists had earlier advocated. Reform economists themselves gained great status, prestige, and professional benefits, including foreign publications, foreign travel to conferences and universities, autonomy from political interference, and influence in policy-making. In 1968, the Hungarian Communist Party implemented the most far-reaching reform in Eastern Europe before the late 1980s.[1] In contrast to the merely organizational reforms in the rest of Eastern Europe, the New Economic Mechanism (NEM) was an attempt to integrate markets into the centralized planning system, incorporating profits as the measure of company success, demand as the determinant of production, prices based on supply and demand, and contracts made among companies independent from the control of central authorities. Why did Hungarian leaders believe that markets could solve their

[1] Yugoslavia was a special case because the Yugoslav Communist Party leadership had introduced decentralizing reforms early in the 1950s after its break with the Soviet Union.

economic problems and, furthermore, that markets should solve them? In other words, how did reform economists' market theories become government policy?

Scholars have argued that Hungary's economic problems forced political leaders to adopt market reforms (Mencinger 1989; Swain and Swain 1993; Berend 1990). As has been maintained throughout this dissertation, such economic determinist arguments cannot explain why other countries, experiencing comparable problems, did not have similar reforms. The interpretation that market reforms were necessary was the result of a network of individuals and institutions with interests in these reforms. In contrast to the strong network around Imre Nagy discussed in the previous chapter, a centrist faction within the Communist Party sought to exclude both Mátyás Rákosi and Imre Nagy, while reconciling their networks to support the centrists. Due to the conditions of the Revolution, this centrist faction had difficulties creating a strong network within the Party, but it gradually formed a tenuous relationship with reform economists. These political sponsors provided resources and political legitimacy to reform economists, who worked within the restricted realm of mathematical economics and provided the Party-state with methods for better economic planning. Furthermore, the Party publicly legitimated many reform economic ideas, including the perception of the economy as a "mechanism." Association with this faction provided reform economists with an important, though constraining, structure for scientific work.

Working within this politically-controlled structure, reform economists radically shifted the understanding of the economy, which brought about the new environment of the New Economic Mechanism. From the pre-1956 period, reform economists retained much of their cognitive unity around the idea of economy as a mechanism and ideally as a market mechanism. Within their retreat into technical mathematical economics after the Revolution, however, reform economists came into contact with American economists developing techniques to simulate market processes through linear programming and computers. The adoption of American mathematical economics and its neoclassical assumptions reinforced the mechanistic ideas of reform economists, and reform economists could use mathematical economics to argue that the NEM was feasible. The adoption of American econometrics also radically shifted Hungarian economic thought because American econometrics assumed an economy much different from that in Hungary. Therefore, mathematical economics was not merely a tool to describe the economy, but also a normative blueprint for changing the economy to function according to neoclassical assumptions. The adoption of American econometrics fundamentally changed Hungarian economic thought, the Hungarian economics profession, and the Hungarian economy.

Finally, this change in economic thought gained realization only within a strong, expanding network of political and professional allies. By 1956, reform economists had developed a common professional identity and many areas of professional and conceptual unity. To further market reforms and their own profession, reform economists had to convince political leaders and other groups that a market mechanism could work and should work within a planning system. Reform economists had gained representatives on the Politburo and within its advisory departments. These representatives mobilized new allies for the NEM by spreading the economists' vision of the economy. This campaign included meetings of hundreds of experts, the massive retraining of bureaucrats in economics, a media blitz, and popular economics courses. Through their network, reform economists' knowledge and worldview spread, making the NEM appear not only possible but absolutely necessary.

What was the New Economic Mechanism?

In 1968, the Hungarian Communist Party officially initiated the New Economic Mechanism (NEM), which made Hungary known as the country of "goulash communism." The NEM was a bundle of reforms to replace the planning system based on compulsory indicators with a combination of planning and a market based on financial indicators.[2] Instead of telling companies what to produce and how to produce it, central state authorities sought to motivate companies to produce according to the national economic plan through financial means, including taxes on the wage bill, interest on current assets, price subsidies, export rebates, company

[2] This section is based on the explanation provided by Berend (1990: 168-193). There are many descriptions of the NEM, including Friss (1969), Révész (1990), Robinson (1973), and Swain (1992).

profit tax, and taxes on company investment. Company managers thus responded to market signals such as prices, supply and demand, and credit terms, while the state monitored, influenced, and regulated this market through financial means and sometimes direct intervention. Company managers controlled the production process and a portion of company profits, wage levels, and investment levels.[3] In addition, in the area of producer prices, companies could set their own prices. When the NEM was implemented in 1968, over 70% of prices had been centrally fixed (Berend, 1990: 173). In the years immediately following its implementation, the NEM reduced the proportion of fixed prices to 36%. Party-state leaders implemented the NEM to increase company independence, create a regulated market, and allow for more effective economic decisions.

Party-state authorities, however, maintained centralized control over the economy in several ways. First, these authorities used financial indicators to force companies to follow the national plan, often leaving companies no real alternatives for action. For example, the state imposed high taxes on companies that allocated too much of their profit-share to the wage fund (Berend, 1990: 178). Second, the state began bargaining with companies over the financial indicators, in contrast to the past practice of bargaining over the plan indicators (Bauer 1978). This bargaining led to increased state involvement in companies, thus decreasing their independent activities on a market. Third, the state centrally determined and financed

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[3] Profits that companies retained were divided into two major funds: the profit-sharing fund and the investment fund. There were other smaller funds as well.

infrastructural investment (Berend, 1990: 170).[4] The government maintained the right to control large economic investments directly and centralized many of the companies' depreciation funds. While the NEM increased the autonomy of companies and the use of financial means, the state maintained central control over the economy in many areas.

While central Party-state authorities still intervened in company activities, the NEM was a major break with past economic practices and had an impact on other socialist countries. Leaders and experts from other socialist countries studied the NEM and adopted the parts they considered useful and workable; the NEM became a model for socialist countries. In the next chapter, I discuss the way reform economists benefited from the NEM, as well as the problems with its implementation. This chapter deals with the process of developing and promoting the NEM, which began in response to the 1956 Revolution.

[4] Deak (1975-76) shows that the number of enterprise investment decisions decreased due to central constraints imposed in response to enterprise overinvestment. Comisso and Marer (1986) discuss a wide-range of the difficulties caused by the NEM.

Historical Background

One of the most important events of postwar Hungary was the Revolution of 1956.[5] For this dissertation, the actual events of the Revolution are not as important as their interpretations and actions that were based on these interpretations.[6] The basic facts of the Revolution are that it started on October 23, 1956 with peaceful mass demonstrations, which soon led to armed fighting. In response to the crisis, the Party-state was reorganized and Imre Nagy became the leader of the government. Over the next week, Nagy announced the dissolution of the state security apparatus, ended the single party system, withdrew from the Warsaw Pact, and declared Hungary's neutrality. Outside the new Communist Party, other political parties formed. Workers established a network of workers' councils, and many groups formed revolutionary committees.

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[5] In Hungary and elsewhere, there has been a politically and emotionally heated debate about the name of the events that took place in October 1956. Technically, according to sociological understandings, it was not a revolution. The official Communist Party term was "counterrevolution" until 1988 when Imre Pozsgay, a member of the Parliament, called it a "popular uprising." Pozsgay's declaration was "tantamount to an open challenge of János Kádár's entire regime" (Litván 1996: xii). One of the earliest declarations of the first freely elected parliament in 1990 was "to preserve the memory of the Revolution" (ibid., x). I use the term "revolution" because it is now the commonly used term.

[6] The events of the Revolution have remained obscure, in part because of the lack of information about public opinion at the time. The nature and extent of support for the Revolution are thus difficult to discern. Scholars often make broad claims about this support without concrete evidence. The best book on the Revolution, Litván (1996), contains assertions about the feelings and motivations of the population without any evidence. For example, Litván claims "The most important trademark of the days of the Revolution was that the entire nation stood united, beyond all differences of opinion or ideology, for freedom" (p. 130). Stokes (1993) calls the events of October 1956, "More an emotional outburst of rage against the Soviet Union than a calculated effort to achieve an attainable goal . . . its passion clearly bespoke the deep hostility both to Russians and to the Soviet system" (p. 46). Much more research is required to understand the nature of the Revolution.

The situation changed significantly when, on November 4, Soviet troops entered Budapest and violently stopped the Revolution. The Soviets installed one of Nagy's colleagues, János Kádár, as the leader of the Party. Imre Nagy and his colleagues escaped to the Yugoslavian embassy on the day of the Soviet intervention. They were captured by Hungarian officials and, in 1958, executed. It has been estimated that around 2,500 Hungarians and 669 Soviets died during the fighting (Litván 1996: 103; Tökés 1996: 13). By the end of 1956, over 200,000 people, or two percent of the population, had emigrated from Hungary (ibid.). Even with Soviet intervention, the Revolution continued for several months through strikes, political party meetings, and the activities of workers' councils.

In spite of his reliance on Soviet force to end the Revolution, Kádár attained some degree of popular support in Hungary. By spring, there were large demonstrations in support of the new regime, and Party membership had increased significantly from its small numbers in November. Yet, after securing political and financial support from the Soviet Union, the Kádár regime conducted massive retributions for Revolutionary activities until 1959. Although there are no exact figures, the best estimates available indicate that at least 35,000 people were investigated for political crimes from the end of 1956 to 1959 (Litván 1996: 143).[7] About 26,000 actually went to court, while about 20,000 received sentences (ibid.). Approximately 13,000 people were sent to internment camps (ibid.). About 350

[7] Tökés (1996) estimates greater numbers of arrests, even though he looks at a shorter time period, November 4, 1956 to July 31, 1957 (p. 14).

people were executed in this period, and at least 229 others sentenced to death because of their participation in the Revolution (ibid., 144). The retributions ended in 1959 with a partial amnesty, but some new arrests were made. Kádár finally put an end to this situation in 1961, by declaring, "Whereas the Rákosiites used to say that those who are not with us are against us, we say, those who are not against us are with us" (Swain and Swain 1993: 151). Party-state officials soon released political prisoners and implemented a general relaxation of repression.

During the mid-1960s, regimes throughout Eastern Europe and the Soviet Union initiated a period of openness and relaxation of repression, as well as discussion about economic reform. From this time, many regimes used consumerism as a way to gain political legitimacy. This openness ended with 1968 Prague Spring, in which leaders in Czechoslovakia sought to implement political and economic reforms and Soviet troops ended these reforms. Hungary, however, implemented its New Economic Mechanism reform eight months before Soviet intervention in Czechoslovakia.

The Revolution and the Economics Profession

Economic Science as Sanctuary?

The political suppression of the 1956 Revolution pushed the Hungarian economics profession in a new direction. In the period immediately following the Revolution, reform economists were attacked as "revisionists." Imre Nagy and those colleagues closest to him were arrested and executed. Economists thus lost their most important political ally and their respected colleague, as well as the core of their network. Party leaders put reform economists through political examinations and severely criticized them. Hungarian economists began avoiding political discussions and any economic topics that could be construed as political. Instead, they escaped into mathematical economics, which appeared technical and devoid of politics. In some sense, mathematical economics was understood as a sanctuary or retreat from political attack, but it also could be seen as a kind of imprisonment in the realm of the technical. On the one hand, political leaders restricted economists' work to mathematical economics. On the other hand, political leaders made mathematical economics a safe haven, by officially sanctioning mathematics and providing resources to reform economists. Furthermore, post-1956 political environment allowed economists to play a more important role in policy and the economy than they had played before 1956. Politicians used mathematical economics to improve their own work and lend legitimacy to their decisions. However, this turn to mathematical economics changed Hungarian economic science in many ways that politicians could not control.

Party officials and leading economic experts attacked economists extensively from summer 1957 to fall 1958; economists called this period the "terror" (T. Nagy 1986: 172). Economists were publicly condemned for their part in the Revolution. One critic declared, "economic science is one of the main retreats of Hungarian revisionism."[8] According to this critic, besides writers and newspaper reporters, economists were the most important influence on Imre Nagy. Economists posed a danger because they encouraged the criticism of the economic problems and "demonstrated" that the cause of these problems was not economic policy but rather the "system."[9] The critic then concluded that the installation of a market mechanism would lead to "capitalist restoration."[10] Another critic wrote, "the new mechanism is not an economic panacea, but rather one of the most pernicious manifestations of revisionism."[11] The Economics Review was also criticized for publishing the work of revisionists who had sanctioned the Revolution (Bierber et al. 1957).[12] The repression of the Revolution brought extensive condemnation of reform economists as "revisionists" and leading instigators of the events of October 1956.

The Economic Science Institute (ESI) was specifically targeted. The head of the Party's scientific personnel department called the ESI "a boil" that must be

[8] PIA 288/23/1957/25, "Revisionism and Economic Science," p. 1.

[9] PIA 288/23/1957/25, "Revisionism and Economic Science," p. 2.

[10] PIA 288/23/1957/25, "Revisionism and Economic Science," p. 6.

[11] PIA 288/23/1957/25, "Ideological Fight against Revisionist Economic Views," p. 22. Most likely Andor Berei wrote this around May 24, 1957.

[12] In a Central Committee meeting on May 17, 1957, the minister of the interior specifically criticized the Economics Review for publishing revisionist views (Balogh 1993c: 331). University professors and students were also viewed as dangerous, and the Party leadership sought to control them. According to András Nagy, the Party required that they join the Communist Party and the Workers' Guard. The Workers' Guard were militias that could be used during political upheavals to defend the Kádár regime (Litván 1996: 114).

"exploded" (T. Nagy 1986: 142).[13] Friss, as the director of the Institute, defended it, but he could not protect all its members. At the end of 1957, the Communist Party set up a Revising Committee in the ESI to examine the activities of its members.[14] The Committee asked each economist two questions: 1) do you agree with Soviet intervention in Hungary? and 2) do you agree that Imre Nagy and the others were traitors? János Kornai and András Nagy both refused to answer "yes" to these questions and were dismissed from the ESI. Friss opposed this committee and its dismissals. In the end, Friss got Kornai and Nagy jobs in ministries.[15] Friss also made certain the founding principles of the ESI did not change (T. Nagy 1986: 177), which meant that ESI economists would continue to research "economic reality" and not return to the analysis of Marxist-Leninist theoretical texts. In spite of the support of Friss, economists in the ESI experienced direct political intervention in their professional work.

In reaction to these attacks, many economists chose to hide away from any activity that could be construed as political. Some of the leading economic policy makers, József Bognár, Imre Vajda, and Jenő Wilcsek, decided to work in the Economics University because there they would not have "political roles" (Wilcsek

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[13] As discussed in the previous chapter, the ESI was an economics institute organized by Imre Nagy and reform economists.

[14] Personal communication with András Nagy in 1995.

[15] Kornai worked in the light industry ministry's research institute. Nagy worked in the foreign trade ministry. They already conducted research in these areas. Both continued to publish critical articles, in spite of their dismissals

1983: 57). Wilcsek decided "to primarily be a scientist" (ibid., 58). Party leaders became concerned about economists' escapes into apolitical work. In 1960, Jenő Fock, the secretary of the Party's Central Committee, addressed the Academy of Sciences' yearly congress. He recognized that the majority of economists were avoiding issues of redeveloping planning methods because

> at one time they were closely connected with them . . . [and this being so] strayed unwittingly on to revisionist ground . . . There are also economists who dare not venture on this rocky ground having been 'put wise' by the example of the others. (Berend 1990: 86-87)[16]

Berend (1990) also discusses how the intelligentsia in general after 1956 "shied away from politics and involvement in government," which weakened the reform camp within the Party-state (p. 72). Economists and many others chose to avoid politics and public activity after 1956.

Economists most often hid in mathematical economics, which had a significant impact on the direction of Hungarian economics.[17] A group of economists gave up political economic themes and did mathematical economics because it was a "good escapist form" (T. Nagy 1986: 181). Economists chose to go into mathematical economics rather than political economy because "you had more room" in mathematical economics since censors and politicians did not understand it.[18]

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[16] B.-J. (1960) reviews this speech in the Economics Review.

[17] Lewin (1974) found economists making similar retreats into mathematical economics in the Soviet Union.

[18] Personal communication with András Bródy in 1995.

Economists could hide their ideas within the formulas and difficult language of mathematics.

Before 1956, however, those involved in mathematics had had serious difficulties. In the Stalinist period, East Bloc leaders were suspicious of mathematics and quantitative economics and punished those who continued to practice in these areas. For example, in 1949, a Communist Party newspaper attacked Kálmán Kádás, a mathematical economist. Another scholar recalled, "My wife was so nervous. She said, 'I forbid all mathematical activity in this house—it is a dangerous profession—think of your two small sons'" (Binder 1965: 1). One of the universities held a conference to attack a statistics professor for his "bourgeois" statistical ideas; he later lost his university position (Köves 1992a: 8-9). The director of the Central Statistical Office declared that statisticians needed only the four arithmetic functions – addition, subtraction, multiplication, and division (Köves 1992b: 2). Calculations of correlations and trends were removed from statistics as "bourgeois." After 1956, the Soviet Union had come to accept mathematics as a useful and acceptable tool. The official acceptance of mathematics after 1956 was a significant departure from earlier policy.

The interest in mathematical economics after 1956 turned out to be more than just an escape. It also created a "new economics" (Wilcsek 1983: 61). The end of 1950s and the early 1960s became known as the "golden age" of mathematical economics in Hungary (Szamuely 1986: 32). Through mathematical economics, reform economists came to adopt neoclassical economics. Kornai remembers, "In the extremely repressive era, following 1956, I decided to move to a politically less sensitive topic: mathematical planning, more closely the application of linear programming to planning, which brought me very close to neo-classical thinking" (Blanchard 1999: 5).[19] Although intended as an escape, mathematical economics introduced Hungarian economists into a new professional community with ramifications far beyond what politicians had intended.

Reorganization of the Polity and the Economy

In response to the Revolution, the Hungarian leadership formed a unique polity and network. Unlike the other Eastern European Communist Parties, the new Hungarian Communist Party leadership was able to negotiate between the factions that arose within the Party and include advocates of market mechanism reforms (Comisso and Marer 1986). In addition, in reaction to the Revolution, the Hungarian government sought to create a new relationship between the economy and politics, which had significant consequences. Interpretations of the 1956 Revolution played a central role in these new developments.

During the Revolution, Soviet Communist Party leaders had chosen János Kádár to replace Imre Nagy as head of the Hungarian Communist Party. Kádár was considered a centrist who might be able to forge a consensus among the two

[19] I used an unpublished version of Blanchard (1999), which had different page numbers from the published version.

opposing factions: those allied with Imre Nagy and those allied with Mátyás Rákosi.[20] While the centrists had been allied with Imre Nagy, by the end of October they had broken with Nagy and gained political and military support from Moscow.

Gradually, Kádár forged a weak network among the factions. Three basic elements held this network together. First, those within the network sought to avoid another revolution. To do so, network allies agreed on a "two-front fight" against a return to Rákosi's "Stalinist" system and against the "revisionist" ideas of Nagy. Second, this two-front fight included a policy of a social "consensus," in which Kádár sought to convince the population to avoid politics in return for reduced Party-state interference in private life.[21] This reduced interference also meant that the Party-state aimed to avoid violent coercion and, instead, sought to persuade the public to follow Party programs. Third, Kádár began to release the economy as a sphere of individual action separate from politics. As a means of dispelling political discontent, Kádár encouraged consumerist desires. By building a broad network, Kádár avoided a repeat of the Revolution and created a new socio-political environment within the East Bloc, which had a profound impact on economic science.

The new Party leadership remained particularly concerned about the "Stalinists," those who had supported Rákosi's regime and its more hardline

[20] Ferenc Münnich and György Marosán were also part of this centrist group.

[21] Toma and Volgyes (1977) call this policy an "alliance policy" (p. 15). Tőkés (1996) calls this "consensus-seeking behavior" and "policies of social appeasement" (pp. 11, 119).

approach to rule, because they constituted the majority of the Party membership (Ripp 1994: 6; Sipos 1993: 16). Rákosi also remained a political threat to the Kádár government. For many years after the Revolution, there was the possibility that Rákosi might return to power, and some of his allies did regain their positions in the Party-state.[22] However, due to the increasing numbers of Stalinists in the Party, leaders were forced to fill the Party-state apparatus with hardliners, which amplified the influence of this group (Ripp 1994: 6). The centrists and the other former allies of Imre Nagy were thus politically threatened by the Stalinists.

In spite of the increasing proportion of Stalinists in the Party after 1956, the Kádár regime began its social compromise policy. To Kádár and others, Rákosi's Stalinist policies had provoked much popular discontent: "We know that the mistakes of the former leaders lost the party and the nation a great deal of respect; our task is to use every possible means to prevent these mistakes from occurring again" (Gyurkó 1985: 108). To Kádár, the most devastating mistake of the Rákosi era was the Party's attack on the population. Instead of coercing the population to fulfill the national plan and show their loyalty overtly, Kádár called for the use of persuasion. In his first speech as leader of the Party in November 1956, Kádár explained that peasants did not want to join cooperatives out of a desire to survive

[22] At the first meeting of the Politburo immediately following the Revolution, Kádár declared that around 27 leaders should not be allowed to hold any position in "the life of the country" (Balogh 1993a: 30). Kádár and his allies were concerned that the return of József Révai, an important ideologue of the Rákosi regime, might be interpreted as the beginning of a Rákosiite restoration (Urbán 1993: 13). Kádár also had important personal reasons for attacking Rákosi as a Stalinist. Rákosi had imprisoned Kádár in the early 1950s.

and went on to say, "We must understand this, and not talk to them like enemies . . . Force must not be used. What's important is to enlighten them. People don't like to be pushed around" (ibid., 111). In fact, according to Kádár, the use of force damaged the legitimacy of the Party: "For if we want to replace ideological influence and political persuasion with the use of force, our real ideological and political influence will, in fact, grow smaller" (ibid., 113). The Kádár regime, however, also implemented its massive retribution campaign. Therefore, this consensus approach did not come to fruition until 1961 with Kádár's declaration, "those who are not against us are with us," but this kind of consensus-seeking behavior typified the entire Kádár era, which lasted until 1988 (Tőkés 1996: 11). While increasingly outnumbered by Rákosi supporters, centrists and softliners implemented a policy of social appeasement.

The other side of the two-front fight was the attack on revisionists. A "revisionist" was understood as someone who sought to revise the principles of Marxism-Leninism to undermine the monopoly power of the Communist Party and/or to reestablish capitalism. From their experience with the Revolution, Party leaders saw Imre Nagy's acceptance of political reforms as leading to chaos and the destabilization of Communist Party power. In contrast, Kádár sought to keep most discussions of policy and policy goals within the Party and generally at the top of the Party within the Politburo.[23] According to the Party leaders, political reforms,

[23] Völgyes (1984) calls this the "Greyhound effect," in which Party leaders monopolize control over political discussion and tell the population to "leave the driving to us" (p. 521).

political activity, independent workers councils, a multiparty system, private ownership of the means of production, or any break with the Soviet Union were taboo. These taboos were reinforced by mass arrests of those who had taken part in the Revolution. In this way, the Party leadership restricted the political arena to maintain control. Not only did the Party leadership seek to politically demobilize the population, the leadership also sought to curtail Party intervention in the private lives of citizens and thus moved to "depoliticize" private life. The Party's interpretation of the Revolution led to this two-fold depoliticization: the exclusion of the population from politics and the removal of politics from the private lives of the citizenry.[24]

Politicization was replaced by economization. The social compromise policy was an attempt not only to depoliticize the population, but also to reorient it towards individual consumerist goals, in hopes that the population would set aside their political demands (Róna-Tas 1997: 84-86; Tőkés 1996: 22; Toma and Volgyes 1977). Party leaders thus sought to "economize" the private lives and political goals of the citizenry. Party factions agreed on the need to improve living standards and promised their continual improvement, making the economy the basis of the Party legitimacy. Party leaders saw economic success as an achievable goal, as exemplified in a 1957 Party ruling to "use results in the economic area and correct measures to strengthen Communist Party authority."[25] The newly implemented profit-sharing

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[24] Róna-Tas (1997) similarly discusses this "depoliticization" and "normalization" (pp. 91-92).

[25] See the ruling about Party organizational tasks in economic organizing work, July 30, 1957, p. 89 (Magyar Szocialista 1964: 88-93).

system encouraged the population to strive for profits. The increase in consumer items also encouraged the population to spend their money. Reflecting this shift in orientation, in the early 1960s the Hungarian government changed its Monopoly-style board game from its version called "Fulfill the Plan!" to a new one called "Manage Sensibly!" ("Egy játék" 1997). In the new version, players managed their money so they could accumulate an apartment, a car, and household appliances.[26] Economic goals of accumulation of profits and mass consumption were thus to replace political aspirations.

The double process of depoliticization and economization of the population presumed that the economy could be a space separate from politics and contain a degree of individual and institutional freedom. Within this space, individuals and companies could interact according to their financial interests. The profit-sharing system and the new price system encouraged this interaction. Importantly, the Party leadership increasingly separated the economy from a particular kind of politics: the political intervention of the Party-state. Another form of politics and opposition took place within the realm of the economy, which could not take place in the polity. The Revolution and its suppression taught the population, as well as the Party leadership, that substantial political reforms were not possible, while leaving open the possibility of gradual reforms primarily in the economy (Korbonski 1984: 367). Economic reform discussions provided the only forum for public political debate. Within these

[26] Róna-Tas (1997) discusses these board games in detail, placing them within the context of the emerging division between private life and the public realm of work (pp. 85-86).

discussions, participants condemned the actions of the Rákosi regime through their criticisms of its economic policies and practices. Writing about Eastern European dissent, Judt (1988) argued, "critical discussion couched in economic proposals was the nearest thing to a licensed opposition in the crucial period 1956-1966" (p. 200). Reform discussions also took on a pluralistic form. Most reform meetings included members of the pre-1948 political parties. For example, the ad hoc Economics Committee in 1957 included politicians from the Smallholders Party, Social Democratic Party, National Peasant Party, and the Communist Party. Later meetings also evidenced this political pluralism. Seemingly technical economic discussion also entailed negotiations about political power, as well as about the autonomy of individuals, groups, and the nation from outside intervention (Tökés 1996: 12). In Hungary, Kádár's social compromise policy intensified the vision of the economy as a separate sphere and as a space for political participation and opposition.

Party leaders' interpretation of the 1956 Revolution led them to make certain policy decisions which set Hungary on a different path from the rest of Eastern Europe. In reaction to Stalinists, the Kádár regime adopted a social appeasement approach, in which it sought to end the use of force and rely on persuasion. In reaction to revisionists, the Kádár regime restricted political discussion within the Party and did not allow political reforms. Since the Party-state made mass arrests after 1956, the social appeasement policy did not truly take effect until after 1961, but the beginnings of this policy are clear in the period immediately after the

Revolution. With both the depoliticization and economization of the population, the Kádár regime encouraged economic preoccupations by providing new consumer items and introducing profit-sharing. As a result of these measures, the economy was seen as a space relatively free from political intervention and relatively open to political discussion through economic topics. These changes in the Party's approach to the political and economic realms, as well as the Party's general desire to avoid any popular protest, took Hungary into a new direction from the rest of Eastern Europe.

Political Networks and Economics

Even though the Party attacked the economics profession for revisionism, the network of political allies around Kádár presented a new official understanding of the economy that reflected many reform economic ideas. Party leaders showed a great deal of concern about economic equilibrium. They worried particularly about how to fund the newly emerging consumer society. At the end of 1956, production had stopped, and wages had increased. A solution to these problems was quite urgent because the regime's political legitimacy rested in large part on fulfilling the promise to continually increase living standards. The factions within the Party had different understandings of these problems and their solutions, but there were areas of consensus among the factions.

To resolve the above-mentioned problems, the Party leadership publicly acknowledged the need to improve the methods of planning and policy-making because the Rákosi regime had made mistakes and had intervened too often in the economy.[27] Party leaders agreed that workers and enterprise managers should have more independence, which led to a decrease in the number of planing indicators. Planners also began to increase the use financial incentives as a complement to centrally determined directives, in the form of a new profit-sharing system and a new price system. Furthermore, in 1957, the Party ended forced agricultural deliveries and established a market for agricultural goods. Officially, Party leaders also declared that the Party-state should hire managers and other experts with economic expertise. These leaders further legitimated the role of economists and other experts: "operative direction of production is the task of economists and technical managers. Communist Party organs cannot give direct directives to them."[28] The official view of the economy reaffirmed many of the proposals of reform economists.

The discussion of economic reforms, however, divided the Party into its main factions of hardliners and softliners. The centrists could choose to ally with either faction. The choice of necessary reforms depended on one's understanding of the economy and one's worldview. Was there a crisis that required to a new economic mechanism? Or had the Party-state never truly used central planning, but rather

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[27] Ruling about Party organizational tasks in economic organizing work, July 30, 1957, p. 88 (Magyar Szocialista 1964: 88-93).

imposed its own arbitrary personal control? If so, then could economic problems be solved by better implementing the existing mechanism? Hardliners saw the economy as not in equilibrium in regards to foreign and domestic commerce. Yet, they blamed economic difficulties on individuals (e.g., Rákosi and his close allies) and their specific methods (Sipos 1993: 17). Their economic experts did not consider these difficulties so severe that they required the installation of a market mechanism. In fact, according to this group, socialism by definition required centrally determined directives, which meant that a market mechanism would dismantle planning and lead to the restoration of capitalism.[29] Economic equilibrium problems made a centralized planning system more necessary than before (Ripp 1994: 11). Instead of a new mechanism, the "perfection" of the existing methods of planning would solve these problems. Hardliners' disregard of impending economic crisis was bolstered by the positive economic results in 1957.[30] Furthermore, the Hungarian government made large loan and trade agreements with other socialist countries. Hardliners used these loans and agreements to remove the reform discussion from the agenda. Finally, hardliners began to equate the "mechanism" with "revisionism," which made "mechanism" a politically dangerous term.

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[28] Ruling about Party organizational tasks in economic organizing work, July 30, 1957, p. 91 (Magyar Szocialista 1964: 88-93).

[29] For example, see PIA 288/23/1957/25, "Ideological Fight against Revisionist Economic Views"; Bierber et al. (1957).

[30] There was little inflation or unemployment (Sipos 1993: 23). On May 17, 1957, Jenő Fock reported to the Politburo that in the first quarter of 1957 production and productivity increased beyond all their expectations (Balogh 1993c: 305).

In contrast, softliners and some centrists argued that an economic crisis was looming in the near future, which necessitated a major economic reform. One softliner reported to the Politburo, "We must see the positive phenomena . . ., but we cannot for a second forget that serious economic difficulties lurk behind these elements."[31] A more centrist expert told the Politburo that "the situation is worse than we had assumed" and called for major changes in policy, without which in one to two months "we will go bankrupt."[32] This group argued for a complete break with the Rákosi regime and for programs to win over the population. According to this group, not only had the Rákosi regime caused the problems that led to the Revolution, but the continued use of Rákosi-era methods and policies meant that the economy would soon fall into a serious crisis. In response to the negative political connotations of the "mechanism" term, however, few called for a new economic mechanism, but they did seek major changes in economic practice. Particularly after 1959, this group began to mobilize reform economists, who provided reform proposals and other support to these softliners.

Along with the recognition of the problems of shortage and debt, Party leaders supported economists' research into mathematical applications. Both factions supported mathematical economics for different reasons. Economists could use mathematical techniques to "perfect" the existing system or create the means for

[31] This quotation appears in Balogh (1993c: 306) as part of a lengthy report made by Jenő Fock on May 17, 1957.

building a new mechanism. In the fall of 1957, with the backing of István Friss, scientists organized a committee to introduce mathematical methods into planning (Binder 1965). One mathematical economist called this meeting a "turning point."[33] The Economics Review published enormous numbers of articles on econometrics, linear programming, input-output tables, and other mathematical concerns. In March 1960, the newly established Hungarian Economics Association decided that mathematics teaching was needed through a formal continuing education program.[34] Data became increasingly available for economists to use in their models (Péteri 1993). Further conferences were organized, such as the Mathematics-Economics Conference in November 1963 in which the organizers called for a "radical turn" to increase the supply of experts trained in mathematical economics to meet demand.[35] In addition, different agencies acquired computers, which made the application of mathematical techniques possible in Hungary. Mathematical economists obtained such resources to conduct their work.

Politicians established the structure in which economists worked, and this structure allowed politicians to retain the power to end institutions and activities that

[32] This quotation appears in Balogh (1993b: 309) as part of a lengthy report made by István Friss on March 12, 1957.

[33] This mathematical economist, Kálmán Kádás, had taught economics before the Communist period and was persecuted during the Stalinist period (Binder 1965).

[34] HAS, Hungarian Economics Association, Box 40, Continuing Economics Education Folder, 1960-1962. Letter from K. Földes of the Hungarian Economics Association to M. Ajtai at the National Planning Office, March 28, 1960.

[35] HAS 186/1/1963, p. 1. "Notes on the theses of the conference on mathematical methods," Nov. or Dec. 1963.

they found dangerous. Reform economists, however, also changed the very way people thought about the economy, which had an impact far beyond what political leaders intended. Reform economists gradually convinced political leaders that a major economic reform was necessary, while playing down the dangers this reform might have for politicians.

Developing the Market Mechanism

Scholars have often presented Eastern European economists as isolated from Western economic science either because of political restrictions on foreign literature or lack of interest in non-socialist economics.[36] This view is bolstered by scholars' use of public sources, such as reform proposals or economic journals, in which the use of Western economic ideas may have been downplayed for political reasons. From archival documents, it is clear that reform economists were quite familiar with Western economic literature. After 1956, Hungarian economists increasingly read this literature. Educational exchange programs to the United States further exposed many pivotal economists to all aspects of the American economics profession.

As a result of the backlash against them and their ideas, reform economists primarily oriented themselves toward mathematical economics. Educational exchange programs reinforced this reorientation. The Western econometrics literature provided reform economists with a concrete means for implementing a

[36] Kovács (1992) has made this point most strongly in his argument that reform economists "learned by doing" rather than "by learning" due to "indifference" (pp. 310-311).

market mechanism within the planning system. Since a market mechanism appeared feasible, reform economists could use American econometrics to strengthen their calls for a new mechanism. At the same time, the adoption of American econometrics also radically shifted Hungarian economic thought because the Hungarian economy was very different from the economy based on neoclassical principles presumed by American econometrics. Therefore, mathematical economics was not merely a tool to describe the economy, but a normative blueprint for changing the economy to function according to neoclassical assumptions. Meanwhile, reform economists were certain that Hungary needed more market-oriented reforms than just the NEM. As discussed in the next chapter, the reform process became unending and led to the conclusion that, in order to have a functioning market mechanism, Hungary needed a capitalist market economy. The adoption of American econometrics helped initiate this process.

Pre-1956 Consensus

As discussed in the previous chapter, reform economists had gained a level of conceptual unity, which was further reinforced by the hegemonic role of Imre Nagy's worldview. The central element of this unity was the vision of the economy as an interdependent, coherent mechanism. This mechanism could be altered or even replaced. Reform economists agreed on the need to replace Rákosi's economic mechanism, which had emphasized the use of coercive administrative means to motivate production. Reform economists argued for a mechanism composed primarily of financial tools, which they referred to as the "market mechanism." With a market mechanism in place, political leaders and central planners could control the economy indirectly through financial tools. Removing the need for political interference and administrative means, this arrangement would allow the economy to function as an autonomous, self-regulating sphere. This reform economic idea of the market mechanism was the very basis for the NEM, and reform economists publicly declared their absolute certainty that this system would work. As a result of their network ties to Imre Nagy, their ideas about the mechanism and financial tools also retained a just quality, making them not only workable but also morally necessarily. Reform economists maintained this basic conceptual unity and moral quality after the Revolution.

Economists' Interests in Markets

Economists had professional interests in the NEM. At first glance, market reforms would appear to undermine the power of economists. Planning provides economists many opportunities for political influence and expert authority.[37] The interests of economists in market reforms, however, emerged from both their past commitments and their contemporary situation. In the early 1950s, economists made a political alliance with Imre Nagy who supported democratizing and market

[37] New class theorists would agree with this perspective. See Gouldner (1981) and Konrád and Szelényi (1979). Brint (1994) holds a similar perspective, though he is not a new class theorist.

reforms, as well as increased support to the economics profession. Irrespective of whether they believed in these reforms or in markets, it was in economists' professional interests to support these agendas because these commitments were the very basis of their alliance and their identity and allowed them to gain professional institutions and status in the first place. Market reforms also, in theory, moved planning decisions to local actors, especially company managers. In the case of planned economies, however, market reforms increased the influence of economists, by devolving control over economic decisions from Party leaders to economists.[38] The self-regulating market mechanism assumed a broad structure of reform economists acting as mediators between actors within the economy and political leaders and central planners working outside the economy. Instead of losing power, market reforms empowered economists because Party-state leaders and market actors required interpreters to know how best to act.

Furthermore, the post-1956 attempts by Party leaders to separate the economy from politics bolstered reform economists' claims over the economy as their field of expertise. As a result of the political retaliation after the Revolution, reform economists only increased their distrust of political leaders. The separation of the economy from politics thus promised to place the economics profession within a

[38] This devolving of control did not mean that politicians abdicated their power to economists. Rather, economists increasingly gained a multitude of means for controlling policy making in the same way other experts have done: defining problems as narrowly technical, thus closing them off from public discussion, setting agendas, determining possible policy options, formulating policy, evaluating policy, informally capturing or being delegated areas of policy decisions, and implementing policy (Brint 1990, 1994; Massey 1988; Parsons 1995).

sphere removed from politics. The NEM in theory would fully realize this separation of economics and politics, as well as the end of political intervention in the economics profession. In this way, reform economists' professional claims were deeply intertwined with their reform proposals.

American Mathematical Economics

American linear programming was a central influence on the formation of the NEM. Economists in the Soviet Union had also developed linear programming and its economic applications during this time. However, Soviet econometrics was less influential in Hungary than its American counterpart because Soviet econometricians did not develop a consistent market socialist model in the 1960s (Sutela 1991: 82).[39] The American discipline offered a means for implementing a market mechanism, which fit into the Hungarian reform economic perspective. During the 1960s, Hungarian economists had increased contact with American econometrics and thus learned about these means. Through academic exchanges and journals, American econometricians greatly influenced their Hungarian counterparts.

American econometrics not only provided a market solution, but also disseminated neoclassical theory. Economists both in the U.S. and Hungary saw linear programming either as a neutral tool (e.g., Dorfman et al. 1958) or as an ideological tool that could be stripped of its bourgeois economic assumptions (e.g., Bródy 1960). I argue that linear programming was not a neutral tool for Hungarian economists. The standards and models already established by the American profession altered the way Hungarian economists perceived the economy.

In an interview in 1998, János Kornai remembered, "The linear programming model has a very nice economic interpretation that I learnt from the book of Dorfman, Samuelson and Solow (1958). This book was one of my bibles at the time" (Blanchard 1999: 5).[40] Dorfman et al. (1958) was the first economics textbook in the new field of linear programming in the 1950s. Linear programming had only recently been invented.[41] In Russia, Kantorovich had first developed it in 1939, but it lay unused for some years. In the U.S., the RAND Corporation and the Cowles Foundation for Research in Economics funded individual economists, conferences, and publications to develop economic applications of linear programming.[42] These

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[39] Sutela (1991: 43) also claims that Kornai (1967) criticized one of the main Soviet mathematical economists, Katsenelinboigen, for having a "totalitarian" image of society, but I have not yet found this quotation in Kornai's work. If Kornai did make this criticism, then this suggests that Hungarian economists sought a more decentralized, consumer-oriented mathematical economics than the Soviets did.

[40] I used an unpublished version of Blanchard (1999), which had different page numbers from the published version.

[41] Dorfman (1958) also discusses other quantitative trends in economics, including game theory and input-output tables, and connects these with linear programming. These trends were also recently developments. Neumann published his application of game theory to economics in 1944. Leontief published his first work on input-output tables in 1936 and made a full discussion of it in 1941, but there were many developments to come, as well as in game theory. For a further discussion of these trends, see Bernstein (forthcoming) and Poundstone (1992).

[42] The RAND Corporation and the Cowles Foundation for Research in Economics sponsored Dorfman, Samuelson, and Solow to write their book in 1951.

economists specifically explored the use of mathematical techniques to create market mechanisms. Dantzig developed linear programming, similar to Kantorovich, in 1947 at the RAND Corporation, but this work was not published until 1951 and the first American application to economics appeared publicly in 1952. Hungarian economists began publishing articles applying linear programming to their own economy as early as 1960, which suggests that they had been experimenting with it before then.[43] Considering that economic applications of linear programming had publicly emerged only in the early 1950s, Hungarian economists had started using linear programming at a relatively early date.[44]

Dorfman et al. (1958) presents linear programming as a neutral, universally applicable mathematical tool, which can be applied to a variety of settings. According to the authors, all linear programming problems have the same formal structure (Dorfman et al. [1958] 1987: 34). Someone has determined a goal (or a set of goals). The researcher using linear programming seeks to find the most efficient, or optimal, way to attain this goal. Usually the researcher finds this optimum by maximizing output or minimizing costs. The researcher calculates the optimal mix of variables within a number of constraints, mainly technological constraints, by solving a set of simultaneous equations.

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[43] For example, Kornai (1960).

[44] Romanian economists were also acquainted with economic applications of linear programming through Dorfman's 1958 text. For example, Egon Balas (2000) remembers acquiring Dorfman's book in late 1958.

Throughout the text, the authors begin with mathematical discussions and quickly turn to economic examples to illuminate the mathematical issues. These economic examples include many assumptions and teach the reader to apply linear programming with a particular vision of the economy. Linear programming was not, in fact, a neutral tool; American econometricians had already interpreted this tool within their own discourse and their own assumptions about the nature of an efficient economy, which did not resemble socialist economies. Hungarian economists learned this discourse and these assumptions through the authors' many economic examples. Furthermore, as with expertise more generally, mathematical methods provide an alternative authority structure based on quantitative expertise, which can be problematic for both democracies and dictatorships. The application of expert knowledge and skills always entails questions of power and politics. Considering the politics of expertise more generally and the specific theoretical underpinnings of American econometrics, one must recognize the political, cultural, and ideological nature of linear programming in the Hungarian socialist context.

First, Dorfman et al. (1958) see linear programming as a direct application of neoclassical theory. Neo-classical economics is characterized by microeconomic theoretical systems constructed to explore conditions of static equilibrium (Bannock 1992: 305).[45] According to Dorfman ([1958] 1987), linear programming discovered the "conditions for equilibrium" and thus was "the most powerful method for

[45] Dorfman (1958) also discussed dynamic equilibrium in the later part of the text.

resolving problems of general equilibrium theory unsolved by Walras" (p. 7). Neoclassical theory assumes that an equilibrium exists and that this equilibrium is optimal. Second, the authors presented the ideas of linear programming within the discourse of neo-classical economics, including opportunity costs, marginal costs, demand curves, and production functions. As Dobb (1960) has shown in the case of "elasticity," this term implies a "demand curve," "indifference curves," and "behavior lines," which are based on assumptions about individual consumer behavior and may not apply to socialist economies (p. 310). Dorfman et al. considered these concepts as logically linked together with general equilibrium theory and individual behavior in a consumer-oriented society. Third, Dorfman et al. assume that companies are free to make their own decisions. These companies function in perfect or near perfect competition with other companies because "competition acts to maximize the total value or output and minimize the total cost of inputs and succeeds in making these two totals equal" (Dorfman et al. [1958] 1987: 380). The authors envision independent companies competing with each other and attaining equilibrium outputs and prices. Fourth, Dorfman et al. assume that managers base their decisions only on profitability concerns. The optimal production program "depended on criterion that no activity should be used if more profitable activity or combination of activities are available to the firm" (ibid., 166).[46] Each

[46] Later, Dorfman (1958) state that they found the production program that maximized profits and assumed that a manager would implement it (p. 184).

economic example in the Dorfman et al. book fused neoclassical theory, its vision of a capitalist economy, and linear programming.

American econometricians had further assumed that market processes could be imitated even in non-market economies. Dorfman et al. ([1958] 1987) recognized that linear programming might provide optimal prices, or what are called "shadow prices": "If such shadow prices are really useful, then it follows that many problems of linear programming may benefit on the computational side from a process of imitating the market mechanism" (p. 33). American econometricians at RAND had been working on a means of simulating a "market mechanism" to solve problems of optimal resource allocation. In his 1949 unpublished RAND paper entitled "Market Mechanisms and Maximization," Samuelson recognized "the computational importance of market mechanism in maximizing problems," but also found many difficulties in using simulated market mechanisms to solve linear programming problems (Uzawa 1960: 873). Many papers by Arrow, Solow, Uzawa, and others provided mathematical ways to simulate markets. With the rapid development of these ideas at RAND, it seemed possible that American econometrics could provide a means for simulating a market mechanism within a planned economy.

The first textbook for economic applications of linear programming presented a formal model for solving a wide-range of allocation problems. The economic interpretation of this model did not emerge separate from the economics profession, but rather was intimately linked to American economic thought. This interpretation assumed a capitalist economy functioning according to neoclassical theory with independent firms striving for profits in a competitive environment. This competition allowed for the attainment of optimal production output and prices. At the same time, econometricians presented the possibility that this independent sphere could be imitated through a market mechanism, in which optimal prices could be calculated for these independent profit-striving companies. This view of the economy, however, differed significantly from that of the Hungarian economy.

Hungarian Adoption of the American Model

Many Hungarian economists published papers about linear programming. Some tried to replace the capitalist assumptions with Marxist ones.[47] In general, Hungarian economists learned linear programming primarily from reading texts, such as that of Dorfman et al., which imbued the very practice of linear programming with neoclassical discourse and assumptions. In order for reform economists to implement a market mechanism like the one discussed above, they would have to recreate the economy commensurate with the assumptions of the model. The NEM would change the economy to fit the neoclassical assumptions of the econometric model.

Reform economists used linear programming methods and their neoclassical assumptions. A good example of these applications can be found in a paper on incentives in Hungary by János Kornai and T. Lipták (1962), which was published in the Western journal Econometrica.[48] This paper reflects the assumptions found in the Dorfman et al. (1958) book and shows how well these assumptions work within the mechanism discourse of Hungarian economics.

As in the Dorfman et al. book, Kornai and Lipták present linear programming as a neutral tool, which can be applied to either socialist or capitalist economies. Through linear programming, they compare two incentive systems to evaluate which system best attains economic policy goals established by the Party-state. Kornai and Lipták assume a neoclassical view of the economy. First, the economy is essentially separate from the political sphere. The authors boldly state that, in their model, companies are free to determine their output and that they determine their output "solely by the desire to achieve a maximum value of an *index of profitability*" (Kornai and Lipták 1962: 145).[49] Kornai and Lipták recognize that, in Hungary, political authorities also tell companies what to produce and that companies are motivated by these dictates in addition to their drive for profits. Yet, the authors maintain their assumption of independent companies striving for profits because it is

[47] Bródy (1960) writes, "We can only use a model, if the last seeds of bourgeois economics are eradicated from it, and we anchor the assumptions themselves in the solid ground of Marxist economics" (p. 955). In fact, Western economists were concerned about socialist countries using their methods. Bródy (1960) points out that a colleague of Leontief attacked Leontief's work because a "totalitarian state" could use it in its direction of production (p. 954).

[48] This paper was taken from a larger work published in 1959.

[49] Italics are in the original.

necessary for their model.[50] Within this mathematical model, political leaders and planners can influence companies only through profit-based incentives and prices. These tools work in a similar fashion to the externally determined prices and incentives assumed in the neoclassical literature. Second, the authors follow the assumptions of equilibrium theory. Through their model, Kornai and Lipták determine the optimal output for companies, which presupposes an equilibrium. This optimal output is calculated through mathematical means, which remove output decisions from political actors or central planners. Third, the authors do not utilize much neoclassical discourse overtly, but they do so covertly. For example, near the beginning of their article, they state that they will not use marginal costs or average costs, which are conventional neoclassical terms, but their graphs include a conventional step-like line used to demonstrate marginal costs (ibid., 143, 159). Finally, the authors do not use the term "market mechanism," but, as with Dorfman et al., Kornai and Lipták do see the possibility of imitating the market through using prices and profit-sharing. As Kornai and Lipták had done, Hungarian reform economists adopted many assumptions from American econometrics.

These assumptions worked well within the Hungarian idea of the market mechanism. After 1956, reform economists rarely mentioned the term "mechanism" in their publications probably because some critics had condemned mechanism

[50] Kornai and Lipták (1962) state, "the activities of the firm are also influenced by numerous other factors. Assumptions 4 and 5 are needed to illuminate fully the effects that are caused specifically by interest in profits" (p. 145).

arguments as "revisionist." Instead, reform economists used the term "model."[51] In spite of this change in terms, Hungarian reform economists used American econometric means to imitate the market and to further their mechanism project. This project emerged first as a criticism of the practices of the Rákosi regime. American econometric conventions allowed reform economists to disregard the political tools of the Rákosi regime, as well as its vision of the economy and politics as a unified whole. Econometric conventions also provided further means for criticism. For example, Kornai and Lipták assume u-shaped costs curves, which are customary in the econometrics literature and reflect an increase in marginal costs after some optimal output point. U-shaped cost curves reveal that Rákosi's policy of forced, rapid industrialization was economically inefficient. American econometricians provided Hungarian reform economists with a concrete means for implementing the NEM and another way to criticize Rákosi's policies.

Yet, the American literature assumed that the market mechanism rested in an economic environment that differed greatly from the Hungarian economy. This assumed environment resembled the ideal economy of the new economic mechanism with its financial incentives and tools. Political intervention only occurred indirectly through the mechanism, and thus the economy was presented as separate from politics. American econometric assumptions, therefore, were fused to the Hungarian vision of the new economic mechanism. However, reform economists did not

[51] In 1960, when these criticisms seemed to have subsided, Bródy stated, "In Poland, they refer to the 'model of the national economy,' which we in Hungary restate as the 'mechanism' (p. 954).

consider the NEM as providing all the conditions for a properly functioning market mechanism. As discussed in the next chapter, reform economists endlessly drew from the American economics literature, in hopes of providing the correct environment for the market mechanism. American econometric assumptions and vision of the market mechanism worked well within the mechanism worldview of reform economists, but these assumptions and vision were based on a capitalist economy, which differed substantially from Hungary's economy.

American Educational Exchanges

The U.S. government also encouraged reform economists' turn toward American mathematical economics and neoclassical theory. For many decades, there had been hardly any communication between the United States and the East Bloc. In the early 1960s, the Soviet Union and Eastern Europe began to show an interest in educational exchanges and Western, and particularly American, science. This turn toward the United States had a significant impact on Hungarian economic science and on the formation of the New Economic Mechanism reform.

In mid-1956, the U.S. National Security Council implemented a new policy toward the Soviet Union and Eastern Europe, NSC 5607, which supported educational exchanges (Richmond 1987: 135-137). Through educational exchanges, the U.S. State Department sought to undermine socialism by exposing those countries to Western influences and supporting individuals and trends that undermined the monopoly of the Soviet Union and the national Communist Parties. The Statement of Policy asserted that the U.S. policy is "designed to weaken International Communism," by stimulating nationalism, promoting "a courageous policy of defiance of Moscow," and stimulating a "desire for more consumer's goods" (ibid., 136-137). The State Department actively sought to implement this policy:

> Our foreign policies are necessarily defensive, so far as the use of force is concerned. But they can be offensive in terms of promoting a desire for greater individual freedom, well-being and security within the Soviet Union, and greater independence within the satellites. In other words, East-West exchanges should be an implementation of positive United States foreign policy. (Richmond 1987: 136)

Educational exchanges with the Soviet Union and Eastern Europe formed an important part of U.S. foreign policy, which set about to undermine socialism.

These exchanges had great political importance. Before 1956, the Soviet Union had rejected any educational exchanges. In 1955, there was one exchange of artistic groups. By 1956, the Soviet leadership had agreed to have educational exchanges. In that year, the Inter-University Committee on Travel Grants in the United States began sending American scholars to the Soviet Union. By 1960, over 200 American scholars had traveled to the Soviet Union. The Ford and Rockefeller Foundations began exchange programs in Poland in 1957 and in Yugoslavia in the following year (Richmond 1987: 114-116). Hungary began its exchanges in 1963. The Ford Foundation had close connections with the State Department and often received proposals and suggestions from these agencies.[52] The Ford Foundation adopted the State Department stance on educational exchanges: "It would seem important to help increase their [East European countries'] contacts with the West and thereby penetrate these East European areas with Western democratic influences."[53] In their Eastern European programs, the Ford Foundation sought to undermine Soviet socialism through cultural means.

The Soviet and American governments had different goals. According to Richmond (1987), the main objective of the Soviet leadership in these exchanges was to gain access to American science and technology (p. 5).[54] In contrast to the East Bloc privileging of the technical sciences, U.S. State Department policy emphasized the social sciences and humanities. The main objective of the U.S. government was to open the Soviet Union to Western influences and thus change its foreign and domestic policies (ibid., 6). To U.S. government officials, Western influences could best be transmitted through educating East European scholars in American social sciences and humanities. These officials also considered American scholars in the

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[52] For example, in an internal report about the Ford Foundation's Eastern European program and its expansion to exchange programs with Bulgaria and other countries, the report states, "High officials of the Department of State have continued to urge that the Foundation extend its program to these other countries" (FF Reel 2346/Grant No. 64-432. Docket excerpt recommending grant approval to Board of Trustees by the Ford Foundation's International Affairs Department, "Educational Relations with Eastern Europe," Nov. 10, 1961, p. 3).

[53] FF Reel 2346/Grant No. 64-432. Docket excerpt recommending grant approval to Board of Trustees by the Ford Foundation's International Affairs Department, "Educational Relations with Eastern Europe," Nov. 10, 1961, p. 2. Printed with permission.

[54] The Hungarian government also wanted to send more scientists and technicians than scholars in the social sciences and humanities (e.g., FF Reel 2346/Grant No. 64-432. Letter from C. E. Black at the Ford Foundation to Francis X. Sutton, Feb. 26, 1968, p. 2).

social sciences and humanities as best able to collect intelligence information since they often understood the languages and cultures of the region. Furthermore, many natural and physical scientists did not want to go to the East Bloc because they did not gain much scientifically from these exchanges.

The Ford Foundation had much control over the choice of grantees. The Ford Foundation provided names of possible participants to the Hungarian government, decided on candidates from lists provided by the Hungarian government, conducted its own interviews of these candidates, and had complete control over the final choice of participants.[55] Ford Foundation officials made their choices based on the individual's academic achievement and political independence. The American economists who conducted the grant interviews generally found the participants to be very good academically.[56] Beyond academic qualifications, Foundation officials chose scholars who maintained a level of political independence. They identified these scholars through respected American academics travelling through Eastern Europe. The State Department also provided suggestions about participants.[57] In

[55] While Grant No. 64-432 is a grant to the Institute for International Education, the correspondence in the Ford Foundation archives makes clear that Ford Foundation officials and their advisors from different universities made the decisions about program participants.

[56] See, for example, the letter from Dale R. Corson at Cornell University to Shepard Stone at the Ford Foundation, FF Reel 2346/Grant No. 64-432, March 26, 1966.

[57] For example, a State Department official sent a letter to the Ford Foundation suggesting that Béla Csikós-Nagy should participate on a Ford program (FF Reel 2346/Grant No. 64-432. Letter from Guy Coriden at the State Department to Stanley Gordon at the Ford Foundation, Oct. 18, 1967).

addition, embassies also sent the Ford Foundation information about politically independent scholars.[58]

The U.S. government and the Ford Foundation gave priority to exchanges of economists, and specifically mathematical economists, in Hungary.[59] First, these organizations wanted to have an impact on the approaching reforms throughout the region:

> Experts inside and outside the State Department believe the process of change in Eastern Europe is quickening and that the time is auspicious for an extension of the Foundation's program in Eastern Europe.[60]

A Ford Foundation official declared that "the economists are a strategic group to be given emphasis in the Foundation's exchange program."[61] Appendix A lists the Hungarian economists who participated in these exchanges in the 1960s. The Ford Foundation chose economists who would have the most impact on the NEM and the

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[58] For example, the Ford Foundation received a list of Hungarian intellectuals suggested for Ford scholarships from the Foreign Service at the American Legation in Budapest on April 8, 1964. The list included many later dissident intellectuals, such Elemér Hankiss and Mihály Vajda (FF Reel 2346/Grant No. 64-432. Letter from Owen I. Jones, Charge d'Affaires at The American Legation in Budapest to Shepard Stone at the Ford Foundation , April 8, 1964). Printed with permission.

[59] This priority on exchanges of economists was made throughout Eastern Europe. An internal report of the Ford Foundation from 1961 stated that of the 269 Polish scholars brought to the U.S. only 40 were from the physical sciences, engineering, architecture, and city planning. The 229 remaining were from the humanities and social sciences "with an emphasis on economists." Those coming from Yugoslavia were also drawn similarly from these fields (FF Reel 2346/Grant No. 64-432. Docket excerpt recommending grant approval to Board of Trustees by the Ford Foundation's International Affairs Department, "Educational Relations with Eastern Europe," Nov. 10, 1961, p. 1). Printed with permission.

[60] FF Reel 2346/Grant No. 64-432. Docket excerpt recommending grant approval to Board of Trustees, June 18-19, 1964, p. 3. Printed with permission.

[61] FF Reel 2346/Grant No. 64-432 Letter from Shepard Stone at the Ford Foundation to Earl O. Heady at Iowa State University, May 6, 1965. Printed with permission.

Hungarian economics profession: 1) economists who ran important institutes and thus had an influence on younger scholars, 2) economists who were prominent in their fields of economics, or promised to become prominent, and 3) economists who worked in fields considered important by the Ford Foundation, such as finance or international economics. One interviewer thought that a specific Hungarian economist would be very influential in economic management and suggested that he be put in a "first-class" MBA program.[62] Foundation officials focused on young intellectuals, but they also brought older established professionals because "these are the ones who could obstruct or promote the influence of the young people."[63] Through educational exchanges, officials at the U.S. State Department and the Ford Foundation sought to influence the NEM.[64]

Second, those working with the Ford Foundation saw mathematical economics as a gateway science, a science that could lead to broader economic and political discussions. The American Embassy in Budapest told the Foundation that social scientists and humanists were an important force for "liberalization" in

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[62] FF Reel 2346/Grant No. 64-432. Interviewer's Evaluation Form of Gyorgy Varga, The Ford Foundation, Exchange Program for 1967-68, Eastern and Central Europe, Interviewer: Howell, Feb. 14, 1967. Printed with permission.

[63] FF Reel 2346/Grant No. 64-432. Letter from Stanley Gordon to Shepard Stone both at the Ford Foundation, Feb. 7, 1964. Printed with permission.

[64] Others connected to the Ford Foundation sought to make changes beyond economic reform, such as university reform (FF Reel 2346/Grant No. 64-432. Letter from Hubert Heffner at Stanford University to Shepard Stone at the Ford Foundation, March 8, 1965).

Hungary, in contrast to the situation in Bulgaria where technocrats played this role.[65] An American economist, who often provided information to the Ford Foundation, referred to mathematical economics as "an important field bridging the ideologies of East and West."[66] Another economist, who initiated the Ford Foundation exchanges with Hungary, remarked,

> I thought that I would send you these notes, to get your reactions on the possibility of a 'trial attempt or possibility' of some type of unit which would attract 'East World' economists to study 'West World' methods. Acceptance of 'method' [sic] might eventually lead to acceptance of broader economic concepts.[67]

This same economist later wrote that economists more generally might extend their economic ideas to the political sphere:

> I emphasize the need for an ample number of well-trained economists simply because of the potential for change in economic systems and planning which considers the preference of individuals (hoping that consideration of individual preference in markets and prices eventually can lead to similar attention to individual preferences in political selection, etc.).[68]

Economists in Hungary were thus seen as playing a special role in importing American political values.

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[65] FF Reel 2346/Grant No. 64-432. Letter from C. E. Black at the Ford Foundation to Francis X. Sutton, Feb. 26, 1968, p. 2.

[66] FF Reel 2346/Grant No. 64-432. Letter from John Michael Montias to Shepard Stone at the Ford Foundation, Nov. 18, 1961, p. 1.

[67] FF Reel 2346/Grant No. 64-432. Letter from Earl O. Heady at Iowa State University to Dr. Charles Hardin at the Rockefeller Foundation, Nov. 30, 1962.

[68] FF Reel 2346/Grant No. 64-432. Letter from Earl O. Heady at Iowa State University to Shepard Stone at the Ford Foundation, April 20, 1965, p. 2.

While the U.S. government hoped to undermine socialism through educational exchanges, these exchanges did not necessarily have the intended impact nor was this impact one-sided. Hungarian economists, from all accounts, appeared to remain committed to socialism, especially with the hopes of major reforms in the 1960s. Hungarian economists also could use their connections with the Ford Foundation for their own ends. With their international connections, they gained increased independence in their work, when they returned to Hungary. As Kornai remembered, "the regime in Hungary did follow what was happening to me, so they knew of my foreign acceptance and reputation, which widened my opportunities for writing" (Blanchard 1999: 11).[69] The Ford Foundation was interested broadly in encouraging "intellectual independence," which could include a broad range of scholarly projects.[70] One American economist informed the Ford Foundation of the idea of "liberal elements in Hungary" to reinforce Western influence through extending Ford Foundation programs.[71] In general, Hungarian economists, the Ford Foundation, and the U.S. government mutually benefited from these exchanges.[72]

[69] I used an unpublished version of Blanchard (1999), which had different page numbers from the published version.

[70] FF Reel 2346/Grant No. 64-432. Letter from Stanley Gordon to Shepard Stone both at the Ford Foundation, Feb. 7, 1964. Printed with permission.

[71] FF Reel 2346/Grant No. 64-432. Letter from John Michael Montias to Shepard Stone at the Ford Foundation, Nov. 18, 1961, p. 2.

[72] Though I did not examine the impact studies in Hungary had on American scholars, it is probable that American scholars' work was also changed by these exchanges.

Beyond providing grantees money, resources, and time to conduct research, the Ford Foundation also immersed grantees in the American economics profession, which they documented in their final reports to the Ford Foundation.[73] Most participants visited the United States for a ten month period. They gained first-hand experience with the American university system through affiliation with one or two top-ranked universities, primarily Harvard, but also Berkeley, UCLA, Stanford, MIT, and others. In addition to studying intensively at their affiliated universities, they also visited numerous prestigious campuses throughout the country. The libraries provided grantees the most excitement.[74] All the economists brought books, periodicals, newspapers, data, and other inaccessible items back to Hungary.[75] They went to seminars, gave lectures, and worked with professors. They experienced different ways of teaching, such as the case method at Harvard.[76] Some grantees became convinced of the virtues of the American higher educational system.[77] They

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[73] One has to be careful with accepting the stories presented by grantees in final reports, but these reports do provide some interesting and useful information.

[74] For example, see Lajos Ács' comments about the Harvard libraries (FF Reel 2346/Grant No. 64-432. Final Report of Lajos Ács, written in approximately Nov. 1966, p. 4).

[75] For example, see András Bródy's comments about obtaining good statistical data (FF Reel 2347/Grant No. 64-432. Final report of András Bródy, July 28, 1965, p. 1).

[76] György Varga said that he had been asked to lecture at the Economics University on the case method, first to the faculty and then to the students (FF Reel 2346/Grant No. 64-432. Final Report of György Varga, Aug. 8, 1968).

[77] See György Kondor's comments on the separation of teaching and research roles in Hungary (FF Reel 2346/Grant No. 64-432. Final report of György Kondor, Aug. 12, 1968, p. 1).

also learned new skills, including computer programming skills and input-output modeling.[78] The universities immersed grantees in American economics education.

Hungarian economists were introduced to the American economics profession more generally. Everyone mentioned that they improved their English language skills during their stay, which increased their professional interactions. Grantees attended professional meetings, such as those of the American Economics Association, American Statistical Association, and the Econometric Society. They made extensive professional contacts. They also received a two-year subscription to any journal when the program ended. Before attending the program, the participants often did not know about the range of institutions and opportunities in the United States.[79] They left the United States knowing the most important American economics departments, as well as the significant practitioners and professional institutions.

During their stay, the Ford Foundation grantees had many other experiences with American society. Harvard arranged for one economist to speak with a "real millionaire self-made manager."[80] They also visited banks, government agencies,

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[78] Among others, Lajos Ács said that he learned about computers (FF Reel 2346/Grant No. 64-432. Final Report of Lajos Ács, written in approximately Nov. 1966, p. 1). Bródy studied programming and other computing knowledge with professors at Harvard (FF Reel 2347/Grant No. 64-432. Final Report of András Bródy, July 28, 1965, p. 1).

[79] A Hungarian economist discussed this problem (FF Reel 2346/Grant No. 64-432. Final report of András Raba, Sept. 18, 1968). An American economist also mentioned this problem (FF Reel 2346/Grant No. 64-432. Letter from Earl Heady to Shepard Stone at the Ford Foundation, April 20, 1965, p. 1-2).

[80] FF Reel 2346/Grant No. 64-432. Final Report of Lajos Ács, written in approximately Nov. 1966, p. 3.

farms, and companies to learn how they functioned.[81] Nearly everyone visited natural scenic sites. One economist took one of the "biggest trips" of his life along Route 66.[82]

The final reports suggest some of the immediate impacts of the exchanges. Some claimed that their outlook on the potential for the economy and economic practice had changed. They also discussed their new appreciation for American economic knowledge.[83] Hungarian economists reported on their experiences to their colleagues. One economist, for example, reported that he had already been asked to deliver lectures on American management education.[84] An employee in the Hungarian government agency that arranged the exchanges told a Ford Foundation advisor that it had had an enormous impact on Hungarian scientific life. The approximately one hundred scholars who had already participated in the exchanges worked in "practically every Hungarian institution."[85] These reports suggest some of the immediate influences the Ford Foundation exchanges had.

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[81] Among others, György Péter visited the Bureau of the Census, the Office of Economic Opportunity, the Bureau of the Budget, and many other agencies (FF Reel 2347/Grant No. 64-432. Report on György Péter, produced on approximately June 10, 1965). Ács visited large American banks and the Federal Reserve system (FF Reel 2346/Grant No. 64-432. Final Report of Lajos Ács, written in approximately Nov. 1966, p. 4).

[82] FF Reel 2346/Grant No. 64-432. Final Report of Lajos Ács, written in approximately Nov. 1966, p. 6.

[83] For example, Kondor discussed his appreciation of the mathematical economics of Arrow, Hurwicz, and Uzawa (FF Reel 2346/Grant No. 64-432. Final report of György Kondor, Aug. 12, 1968, p. 1).

[84] FF Reel 2346/Grant No. 64-432. Final report of György Varga, Aug. 8, 1968, p. 1.

[85] FF Reel 2346/Grant No. 64-432. Letter from John Lotz at Columbia University to Stanley Gordon at the Ford Foundation, Jan. 23, 1967, p. 2. Re: Hungarian Exchange Program (1967-68). "Observations (during my stay in Hungary in 1966)."

In response to political attacks after the 1956 Revolution, reform economists turned to the seemingly apolitical field of mathematical economics. Through their work in this field, they adopted the standards and assumptions of American econometrics, as was apparent in the example of Kornai and Lipták (1962) discussed above. American econometricians assumed that companies freely made their own decisions based only on profitability, which was not the case in the Hungarian economy. In spite of such differences, American econometrics had a significant influence on both Hungarian economic science and the NEM. American econometricians bolstered Hungarian proposals for a new economic mechanism, by showing that it was feasible to simulate the market mechanism mathematically. American econometrics also provided a normative blueprint for reforming the Hungarian economy so as to fit the neoclassical assumptions.

Exchanges sponsored by the Ford Foundation and other organizations encouraged this turn to American econometrics and to neoclassical theory. In the mid-1950s, the U.S. government established a new policy to undermine socialism through educational exchanges. Through these exchanges, East Bloc scholars would become exposed to American ideas and practices. The U.S. government through the Ford Foundation also supported scholars who conducted research that was politically independent of official ideology. During the 1960s, the Ford Foundation gave priority to exchanges of mathematical economists, who would have a great impact on

Hungarian economic science and the NEM. These economists personally experienced the American economics profession on a long-term basis. While they sought to avoid politics by retreating into mathematical economics, reform economists reentered the polity to promote the new economic mechanism with the help of mathematical economics, which had already altered the very assumptions and practices of the Hungarian economics profession.

Mobilization for the NEM

In his work on the political influence of scientists, Massey (1988) argues that scientists can best exert influence in policy-making if they have cognitive and structural unity. This unity, however, always exists within the confines set by politicians. While such cognitive and structural unity is essential, scientists also require strong networks, by which scientists can convince others of the validity of their knowledge claims. Reform economists understood the economy as a mechanism and held that this mechanism should be altered to privilege market processes, but those outside their network did not view the economy this way. The NEM required a fundamentally new way of thinking about the economy on the part of the Party-state and the population. In the Népszabadság newspaper in 1966, one person wrote, "it had been obvious from the outset to those planning the reform that the transformation would also cause a transformation in thinking" (Berend 1990: 167). This reform required the spread of economic thinking throughout the Party-state and the population and an entire reinterpretation of economic life.[86] One had to see the world as essentially economic, to see the world as economists saw it. In 1965, the Party declared that

> Such a transformation of the functioning of our economy is necessary, in which objective evaluation criteria of work play a larger role, which makes necessary the application of economic science at every level of management. ("Közgazdaságtudomány" 1965: 535)

This change in both economic structure and thinking would only be successful with a strong, extensive network, which soon formed. By 1968, the NEM seemed like the best and the necessary solution to a wide-range of problems.

The Politburo and its Advisors

Important members of the Politburo had long been open to major economic reform. Immediately after the Revolution in 1956, Party leaders established an ad hoc group, called the Economics Committee (Közgazdasági Bizottság), to decide how to implement a new economic mechanism.[87] Approximately two hundred economic experts took part in the meetings of the Economics Committee, making it the largest meeting of economic experts assigned to work out an economic proposal since at

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[86] Swaan (1993) has called this process of convincing the Party of the need for reform a form of civil disobedience, arguing that "the widespread degree to which this happened and the high level of analysis has in fact substantially contributed to the disintegration of the system, not in the least because it has convinced an increasing part of the party-state bureaucracy of the need of radical reform" (pp. 41-42).

least 1948 (Szamuely 1986: 191). These meetings, which lasted about six months, were a "good school and an attitude forming forum" for hundred of economists, who later worked on the New Economic Mechanism reform (ibid., 192).[88] Close advisors to the Politburo had participated in these meetings and reported on them to the Politburo. Important members of the Politburo, including Kádár, had been convinced of the need for reform, but this reform had been sidelined when Hungary received large loans from the Soviet Union and other Eastern European countries, which decreased the urgency for reforms.

After 1957, Politburo members continued to discuss the need for economic reform. They remained concerned about debt problems caused at least in part by the new consumer-oriented economy. In the early 1960s, Politburo members discussed plans to merge hundreds of companies, in the hopes of creating large enterprises that could function independently from ministries and political management. Reform economists considered such mergers "organizational" changes and not true economic reforms. Kádár also did not support these mergers:

[87] Szamuely (1986) has published excerpts from the minutes of these meetings. The decision to have these meetings was actually made by the Economic Committee (Gazdasági Bizottság), a new government economic decision-making group. The Committee had several important economic experts from the Party apparatus, including Antal Apró, Sándor Rónai, István Kossa, Árpád Kiss, István Friss, and István Antos.

[88] Interestingly, the Economics Committee was led by István Varga, who headed the pre-1949 Hungarian Institute for Economics Research (HIER). Varga included many of his colleagues from the HIER in the meetings (Huszár 1990: 149).

> It cannot be believed that such an acute question will be solved by reorganizing the leadership. . . If this work [i.e., the mergers] interferes with the solution to these questions, then we'll throw out the whole reorganization in two years and turn our energies to a better solution of the daily economic problems.[89]

Others on the Politburo also agreed that the concentration of industry would not help.[90] Individuals on the Politburo remained convinced of the need for substantial economic reform.

Events in the Soviet Union helped strengthened the centrists' and softliners' arguments for reform. In 1961, Khrushchev reiterated his denunciation of Stalin and Stalinism at the 22nd Soviet Communist Party Congress.[91] Khrushchev also declared that the Soviet Union would surpass the United State economically by 1980. To reach this goal and move away from Stalinist economic practices, Party leaders began planning a major economic reform. The Soviet press initiated a discussion of economic reforms, and the reform was scheduled for 1965. This reform discussion

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[89] PIA 288/5/231/1961, p. 17 (25). Meeting minutes of the Politburo, May 23, 1961.

[90] Antal Apró, as well as István Friss, argued against the reorganization (PIA 288/5/231/1961, p. 39 (47). Meeting minutes of the Politburo, May 23, 1961). Imre Párdi of the economic policy department also recognized that reorganization would not solve the economic problems (PIA 288/5/255/1962, p. 38 (52). Meeting minutes of the Politburo, January 22, 1962). While Kádár did not consider the reorganization a panacea, he did see it as necessary because mergers would decrease the "management steps" and make management easier (PIA 288/5/255/1962/ p. 42 (56). Meeting minutes of the Politburo, January 22, 1962).

[91] Khrushchev made his first denunciation in 1956 at the 20th Soviet Communist Party Congress. At the 22nd Congress, Khrushchev emphasized his point by having Stalin's body removed from the mausoleum in Red Square, renaming cities named after Stalin, and publicizing aspects of the great purge for the first time (Riasanovky 1993: 542).

served as a green light for other countries, but it did not dictate the type of reforms implemented.[92]

Hungarian softliners and centrists chose Rezsö Nyers as their top economic advisor and the main organizer of the NEM. Since 1957, Kádár had trusted and personally supported Nyers, promoting him to high-level economic positions. According to his colleague, István Huszár, Nyers already had a good name, a broad perspective on economic policy, and was considered an educated person. Nyers had graduated from the Economics University. He had experience with the cooperative movement and had been part of the "elite" working class, working as a printer before he entered employment in the Party-state apparatus (Huszár 1990: 179). After 1956, he became a member of the Party's Central Committee, while he headed the government's cooperative agency and then became the minister of finance in 1960.[93] Nyers had political and professional qualifications. He also fulfilled the quota for Social Democrats, which Kádár found important.[94] In 1962, Nyers was named the Central Committee secretary for economic issues, making him the most important economic expert in the Party.

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[92] For example, while Hungary had market reforms, Romania became more Stalinist than it already was, even though Khrushchev had attacked Stalinism.

[93] Nyers was the president of SZÖVOSZ from 1957 to 1960 and then the minister of finance from 1960 to 1962 (Balogh 1993b: 418).

[94] In 1949, the Hungarian Communist Party and the Hungarian Social Democratic Party (HSDP) had merged, but many HSDP members did not get positions of power in the newly formed party. Communist Party leaders dominated the new party. Kádár sought to make alliances with members of all the parties that had been in the Left Bloc in the 1940s by including their previous leaders in his government and ad hoc advisory committees.

Nyers mobilized a multitude of groups to develop and promote the NEM. In the early to mid-1960s, it was not obvious that the Hungarian economy required a new mechanism or that the economy was in a crisis or even approaching one. Nyers had to convince the Party-state leadership that there was an economic crisis, which could only be solved by the NEM.[95] Individuals in the Party leadership, such Nyers, saw that, without serious reform, there would not be enough economic growth to have balanced foreign trade. This group had "convinced" the highest Party leadership that serious reform was necessary (T. Nagy 1986: 216). Nyers helped do this by assuring the leadership and others that they could have economic reform without political reform. Therefore, unlike Imre Nagy, Nyers and the NEM did not appear to threaten the status quo (McDonald 1992: 159). To work out the details of the reform and convince others of its necessity, Nyers mobilized his existing network, which already accepted the need for a new economic mechanism. This mobilization succeeded at least in part because he persuaded others that Hungary was on the verge of economic crisis when this was not evident and because he reassured the Party that political reform could be avoided. His network building rested on these claims of economic crisis and the possibility of purely economic reform.

Nyers' most important ally was the Finance Ministry. After 1957, this ministry came to be known as the center of the "mechanism movement" (Hetényi

[95] In an interview long after the NEM, Tamás Nagy, an important ally of Nyers, recognized the difficulties Nyers faced (1986: 215-216). Tamás Nagy criticized those who claimed that the NEM resulted from economic problems. According to Tamás Nagy, Hungary was not in a hopeless situation in the early 1960s. Once again, Tamás Nagy was not related to Imre Nagy.

1987: 164). Individuals in the ministry had long been connected with discussions about "the economic mechanism." The finance minister immediately before Nyers, István Antos, had been an advisor to Imre Nagy immediately before the Revolution (Vas 1990: 190-192). Antos had led the 1957 meetings of the Economics Committee.[96] At that time, he had pushed for changes in economic policy, but he also wanted to reform the economic mechanism (Wilcsek 1983: 52). The meetings of the Economics Committee, in fact, were held in the Finance Ministry (Huszár 1990: 150). Antos continued these discussions of the mechanism within the ministry.[97] Within the Finance Ministry, Nyers was immersed in this mechanism culture.

The very tasks of the Finance Ministry were directly linked to mechanism questions. This ministry dealt with company finance, company incomes, and financial balances (Hetényi 1987: 191). The ministry focused on financial tools, which were used both to measure company fulfillment of the plan and to motivate company managers and employees through profit-sharing. Those in the Finance Ministry had to decide how to meaningfully measure company success, when prices were passive and did not reflect demand or necessarily real costs. Companies also had to be effectively pressured to produce goods in sufficient quantity and quality. Nyers brought knowledge of these financial concerns and his connections with the mechanism movement to his work as economic advisor to the Politburo.

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[96] Antos was finance minister from 1957 to 1960, when he died (Balogh 1993a: 334).

[97] The finance minister after Nyers, János Timár, focused on mechanism issues even more than Antos did (Hetényi 1987: 165).

In 1963, Nyers began strengthening his connections with other "progressive" economic leaders.[98] At that time, Nyers formed his "brain trust" with István Friss, Ferenc Erdei, József Bognár, Imre Vajda, György Péter, Jenö Wilcsek, József Balint, and four ministers, who were free to "imagine" the direction of economic reform (Wilcsek 1983: 69). Friss, Bognár, Vajda, Peter, and Wilcsek had been central figures in the 1957 Economics Committee meetings and, thus, were well acquainted with mechanism discourse and issues. The brain trust met several times for meetings as long as ten hours (ibid., 71). They discussed a wide variety of topics, including prices, wages, planning, and comprehensive reform in general (ibid.; Berend 1990: 139). The members of the brain trust decided that the plan directives system had to be ended (T. Nagy 1986: 252). One of Nyers' most important converts was István Friss, the long-time economic advisor to the Politburo. Friss was known among economists in the 1950s as very conservative economically and politically. Yet, Friss had long accepted the need for mechanism reform, even though he did not support comprehensive reform (ibid., 187). By 1964, Friss had become a supporter of radical reforms, when just two years earlier Friss would have found the NEM reforms unimaginable (ibid., 180). Nyers reached agreement within this small circle of economic experts and then expanded to other groups.

Political acceptance of economic reform in the Soviet Union opened up the possibility for reforms in Hungary. Politburo members who supported reforms began

[98] "Progressive" is the term reformers used for themselves.

to work with Nyers, a trusted economic expert within the Party. Nyers had immersed himself in the mechanism culture of the Finance Ministry and gained important allies within this ministry. Nyers brought this knowledge and discourse to his work in the Party's economic advisory department. From 1963, Nyers and political leaders who supported reform began expanding their network to persuade others of the need for the NEM.

Convincing State Elites: the Mechanism Committees

By July 1964, the State Economic Committee of the Central Committee drafted a decree about the need to reform the economic mechanism (Swain and Swain 1993: 135). However, this reform was not politically authorized until 1966 and not implemented until 1968. It took the Party leadership years to mobilize its network of allies. Kádár, the Party leader, in an interview in the 1980s recognized this:

> The reason why we had to work on the concept of the reform for three years was not because the economists had no ideas. There were economic plans, but in judging the reform one had to take into account the social and political effects. Initially, the Central Committee was not unified, and neither was the country itself. The maintenance of stability was more important than anything else at the time; the shock of 1956 was still too near. So we went on debating as long as we could to achieve unity. (Gyurkó 1985: 131)

Nyers and fellow reform supporters had many years of work ahead of them to promote the NEM among state elites.

They promoted the NEM to state elites primarily through the Mechanism Committees. At the end of 1964, the Central Committee told its Public Finances Committee to reappraise the existing mechanism (Berend 1990: 140).[99] This reappraisal was done by the Mechanism Committees, which were 11 working groups led by economists from state authorities.[100] Nyers was the main organizer of these meetings and participated on the Directing Committee with István Friss and Imre Párdi. The Mechanism Committees had a secretariat led by Tamás Nagy, Tamás Morva, and Péter Havas.

These meetings had a dual role of working out the details of the NEM and "convincing" state elites of the need for the NEM (T. Nagy 1986: 203; Hetényi 1987: 218). The Secretariat assigned people to the working groups, choosing a mixture of "progressive" (those supporting comprehensive reform) and non-progressive people, whom the progressives were supposed to convince, but the working groups contained more progressives than non-progressives (T. Nagy 1986: 253; Wilcsek 1983: 77). Each group had its own topic and received a general proposal to initiate discussion. Nyers along with the other directors had agreed beforehand on several issues, including that the plan directive system must end, comprehensive reform was necessary, a "self-regulating market" should be introduced, and economic reform could occur without political reform (T. Nagy 1986: 205-210; Hetényi 1987: 210). It

[99] This ruling can be found in Magyar Szocialista 1974: 94-109.

[100] Berend (1990) states that there were 11 committees, while T. Nagy who was on the Secretariat says that there were 14 committees (T. Nagy 1986: 202).

was also agreed that they were not changing the policy mechanism, the institutional system, or economic policy.[101] The new economic mechanism would merely improve the implementation of the existing economic policy. They were not allowed to talk about unemployment or self-management in the cooperative sector. Also the meeting organizers did not want to copy the Yugoslav system because it was having problems with unemployment and inflation (T. Nagy 1986: 207). Within these constraints, meeting participants were to discuss the NEM and persuade the less progressive to support the NEM.

The groups also had to convince progressives to stay within the limits established by Nyers.[102] Some of the discussions did not go well at all. The investment working group was stopped altogether because it had gone beyond the theme of economic direction and "bumped into the political mechanism" (Hetényi 1987: 212). The Secretariat members would visit those groups that were not working well and try to influence them. Someone, possibly Nyers, stopped this discussion (ibid.). Tamás Nagy (1986) remembered that this discussion was seen as a "big problem" (p. 203). Nyers and others sought to confine the discussion to particular economic issues.

In November 1965, the Central Committee passed the first draft of the reform. The final version of the reform was passed in May 1966. Each of the working

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[101] These areas were influenced by the NEM. According to Huszár (1990), institutions were altered, including the price office and the banking system (p. 204).

group leaders made reports, which the Mechanism Secretariat summarized in what was called the "Yellow-Brown Book" and sent to the Party's State Economic Division (SED). The SED asked experts, such as István Hetényi at the National Planning Office, their opinions about the proposals (Hetényi 1987: 200). The SED wrote the Central Committee decision on the NEM, using parts of the Yellow-Brown Book. By May 1966, the Party was ready for the NEM's implementation date of January 1, 1968.

Convincing the Party-State Apparatus

Reform supporters also had to convince bureaucrats in the Party-state apparatus and company managers. The decentralization of economic decisions and incentives to the company-level removed the need for many bureaucrats in the Party-state. Therefore, the NEM threatened the livelihood of this group. Company managers did not necessarily support the NEM because it threatened them with unemployment and possibly bankruptcy. The reform economists had to assure these groups that the NEM would help them survive and actually be better off.

To convince these groups, the Party organized courses to train them in economics. According to Party officials, this training would help the NEM because it would provide more of an "economic view" in the companies and the Party

[102] This was a common practice of self-censorship, which continued even though discussion of the economic mechanism was no longer seen as dangerous.

apparatus.[103] By 1964, the Politburo had changed Party education to include more economic propaganda.[104] The Politburo increased the number of economic policy courses, as well as attention given to the "harmonizing" of political, Marxist, and professional training of economic managers and middle-level cadres (Magyar Szocialista 1974: 44). According to a 1966 report, 140,000 people attended the new economic policy courses in the first year, in comparison to the 70,000 that attended the course on building socialism (ibid., 46). In 1966, the Politburo declared that they "need an apparatus that understands the essence of the reform and feels certain about it."[105] The Party began training propagandists to explain new economic concepts to the rank-and-file Party members. In 1967, the Politburo decided to establish Economic Basic Knowledge courses as part of the Party's expanding economic propaganda.[106] These courses covered economic problems, fundamental knowledge needed to understand economic phenomena, economic policies, issues about the NEM, and world economic questions. The Party increased the number of popular economic talks and continuing education courses to teach company directors and other employees how to work within the new NEM environment. The Hungarian Economics Association held conferences, such as one in 1965 on the NEM, in which

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[103] PIA 288/5/300/1963, p. 3 (113). Central Committee decision, May 8, 1963.

[104] Politburo decision about the tasks of Party education on Feb. 4, 1964 (Magyar Szocialista 1974: 43).

[105] PIA 288/5/394/1966, p. 1. "Proposal on organizational changes connected with economic reform," May 3, 1966.

[106] Politburo decision about the tasks of Party education on April 6, 1967 (Magyar Szocialista 1974: 53).

Nyers and other important economic experts explained the reform. According to Party leaders, managers and Party-state bureaucrats had to be taught to think economically in order to be convinced to accept the NEM.

Convincing the Population

During 1966 and 1967, the Party launched a huge campaign to convince the public that the NEM was not a betrayal of socialism but a renewal of it (Huszár 1990: 208). The NEM appeared to encourage many non-socialist phenomena, such as striving for profits, greed, a consumerist orientation, and a lust for possessions; the NEM might even bring back capitalism.[107] Reform supporters worked to convince the public of the need for reform. They also sought to teach the population to think economically, so that the NEM would be successful.

Economists saturated the media with talk of the NEM and economic concepts. With official sanctioning of the NEM, economists had access to the influential editors and media gate keepers. In addition, few alternatives to the NEM were allowed to be espoused. The repetition of these ideas and concepts made them become more acceptable and believable. The Party's main ideological journal, the Social Review (Társadalmi Szemle), increasingly published articles by economists. In each monthly issue, there were at least 3 articles by economists promoting the NEM. Also the Social Review started a new column called "The Economics

[107] Berend (1990) discusses criticisms of these elements during the 1960s (pp. 147-157).

Dictionary" in which different terms from the NEM were defined. Both the Economics Review and Economy were inundated with articles about the reform. Economists saw the Economic Review as a way "to spread economics culture."[108] The newspapers continually discussed the reform. There was even a cartoon series on national television called "I Explain the Mechanism," starring Dr. Brain with glasses and lab coat, who explained the basic concepts of the NEM to the population.[109] Everywhere the media discussed the NEM, repeating its mantras.

Convincing other Countries

Hungarian Party leaders and economists also had to convince other countries. Many socialist countries, like East Germany, were very suspicious of the NEM. Economists traveled to these countries and explained the NEM. For example, István Hetényi (1987) had to explain the reform to Party leaders in both East Germany and the Soviet Union (pp. 223-224). Some socialist countries were very interested in the NEM, and economists from these countries visited the Economic Science Institute.[110] Hungarian economists thus played an important role in gaining foreign support for the reform.

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[108] HAS 187/1/1965. Meeting minutes of the Permanent Economics Committee, handwritten minutes, Feb. 9, 1965.

[109] Personal communication with Ákos Róna-Tas.

[110] In 1962, the Economic Science Institute had 25 visitors from abroad; in 1963, it had 26. However, in 1964, it had 58 visitors (HAS 186/8/1965, p. 13. "1964 General Report" of the Economic Science Institute, January 1965).

In 1966, the Academy of Sciences established ACTA Oeconomica, a Hungarian economics journal published primarily in English, to promote Hungarian economic science abroad. When Hungarian economists' articles were published abroad, they often appeared in Hungarian, which meant that they had a small audience. ACTA Oeconomica allowed Hungarian economists to inform others "systematically" of their work and strengthen their "scientific connections with other economists" from socialist and non-socialist countries (Földi 1966: 983). Interestingly, many of the editors were reform economists and had sided with Imre Nagy before the Revolution.[111] They chose articles they considered the best works of Hungarian economic science, which made the journal a forum for reform economists. The articles often presented the problems with the centralized economic system, details of the NEM, and mathematical economic methods. Yet, the editors sought to promote Hungarian economics not only outside Hungary, but also in Hungary: "we should further enhance the good reputation of Hungarian economists both within the country and abroad" (Földi 1966: 984). The journal became quite prestigious within Hungary, lending increased legitimacy to reform economists. ACTA Oeconomica helped reform economists and political leaders to promote the NEM abroad and at home.

[111] The editorial board of ACTA Oeconomica included Imre Vajda (chief editor), György Cukor, Ferenc Fekete, Róbert Hoch, Ferenc Kozma, and Ferenc Molnár (Földi 1966: 983). Tamás Földi was the administrative editor.

Conclusion

The realization that a market mechanism was possible and necessary was not apparent to those outside the network of reformers. To implement the NEM, reform economists needed to connect with a strong and expanding network. Nyers and many others successfully converted Party-state elites, bureaucrats, company managers, the public, and other countries to the NEM reforms. Not only did the NEM require substantial changes in the economic environment, but it also required a fundamental shift in thinking about the economy. With this shift, the NEM appeared as a necessary reform. This shift only became possible through the network-building of Nyers and others.

On January 1, 1968, the NEM was implemented with much excitement and anticipation. Party leaders had come to accept the NEM and market reforms as the only possible changes that would make the economy grow enough to fulfill their promise to continually improve living standards. The NEM was the result of the Party's interpretation of the 1956 revolution and changes in the Soviet Union, but more importantly it was the result of the consensus within the economics profession and its ability to mobilize the Party, state, population, and the other countries for the NEM. Economists worked to promote the NEM because it promised a better economy, improved professional conditions, and a central role for economists in the economy.

Chapter V
The Impact of the NEM, 1969-1989

In 1989, nearly all East European Communist Parties initiated programs to implement market capitalism and prepared for democratic elections. As a result, Hungary was no longer unique as a reform innovator. Would Hungary have become capitalist whether or not economists there had been powerful promoters of market reforms? Hungary remained central to the marketizing processes taking place all over Eastern Europe because of the work accomplished by economists. The Hungarian Communist Party initiated the market reform process in Eastern Europe and was the first Communist Party to attempt to create a full market economy. Even by 1988, Hungarian Communist Party leaders had already implemented a stabilization program, which remained in place years after the Party was voted out of office. Hungary was unique because this process began much earlier and became much more pervasive there than in other Eastern European countries. In this chapter, I discuss the many factors that pushed Hungarian economists and political leaders in this direction during the 1970s and 1980s. The call for a market economy was not the natural, unmediated response to economic conditions, but rather the result of work accomplished by economists and others, who provided interpretations of these conditions and had interests in market reforms.

The New Economic Mechanism (NEM) was a set of reforms to incorporate a regulated market into the planning system in 1968. The NEM was just one of the many social changes occurring in Hungary in the 1960s. Since 1961, the Kádár regime had implemented a general amnesty for political prisoners, allowed the flourishing of cultural and associational life, sanctioned private sector activity, and decreased the Party's interventions in the private lives of the population. Yet, the NEM benefited the Hungarian economics profession specifically. Economists gained new institutions, rapidly expanding job opportunities, greater professional autonomy and status, and a strengthened role as mediators between political leaders and economic actors. The NEM also institutionalized economists' ideas about the market mechanism and spread them throughout society. The new official view of the economy as a self-regulating market delegitimated previous views that saw politics and the economy as a uniform whole, which had sanctioned the role of political leaders in the economy. The state was altered by an influx of economists and the retraining of officials in reform economic thought. The NEM produced a fundamental shift in the official view of the economy, which encouraged the implementation of further market reforms. Hungarian economists advocated liberalizing market reforms as a means both to shape the economy according to their theoretical presuppositions and to strengthen their profession.

After a brief nationwide backlash against the NEM, economists continued throughout the 1970s and 1980s to increase their political influence and professionalize through their interpretations of economic problems and their solutions. Economists interpreted these problems in light of their prior commitments to market reforms and mechanism ideas, as well as in response to their own professional and political environment. From the many issues they discussed, two were of particular importance: the world economy and the second economy. During the 1970s, economists saw the world market economy as increasingly impinging on the Hungarian economy first with the oil price shocks of 1973 and then with the debt crisis of 1979-1981. Since it was not obvious to others that the world economy had demands that must be met, economists had to convince them of their interpretation. Their interpretation was bolstered financially and organizationally by the IMF and the World Bank. On the more micro-level, economists invented the term "second economy" in the late 1970s to describe an amorphous space of private business. The Party implemented laws in 1982 to legalize this sphere, profoundly changing the economy. Interestingly, these two realms were spaces of the market economy, where economists had already asserted their professional claims in opposition to experts who used administrative or political methods. Economists were able to make themselves the spokespeople for these two expanding realms, which led to increased influence and status. Economists defined these realms in market terms, mediated between the Party-state and economic actors, and represented these two expanding regions of the economy to the restricted polity.

Not only did the NEM and later developments solidify the link between market reforms, economists, and economists' professional goals, but these developments also brought about a new relationship between economists and politics. In economic policy-making, the Kádár regime had created a form of pseudo-democracy. After the 1956 Revolution, the regime sought to force people to avoid politics and encouraged them instead to focus on individual economic activity. In contrast to the closed sphere of politics, the Party encouraged many groups to discuss economic issues. Among these groups, economists were the most powerful representatives of the economy within the restricted polity of the Party because they had connected their expertise and reform. Market reforms in the 1980s further strengthened the role of economists in the polity. By the late 1980s, an expert democracy with economists controlling economic decision-making seemed a possibility

At the same time, reform economists, who had earlier criticized political intervention in the economy, publicly advocated political democracy as a necessary condition for a market economy. While economists claimed that they had reached the political limits of their economic ideas, this claim does not explain the timing of this switch and ignores the consistently political nature of economics as an oppositional discourse and basis for political authority in socialism. Furthermore, reform economists during this time increasingly made contacts with dissidents who used an alternative political rhetoric. Reform economists incorporated this political rhetoric into their own economic understandings of democracy. The post-1968 period was a time of immense, wide-ranging change in Hungary, in which economists played only one part. Yet, economists were particularly influential in ways that have been hidden behind their identity as apolitical, technical experts who only describe reality.

The Impact of the NEM on the Economics Profession

McDonald (1992) argues, "Far from being a victory of a market class over communist authoritarianism, the New Economic Mechanism was in many ways a clever strategy of political control" (p. 160). While in many ways the NEM did buy off the population, it also had a profound impact in ways that the Party leadership could not control. The NEM institutionalized a fundamentally different official view of the economy and thus implied new forms of action. Previously, there had been other ways to understand the economy, such as the one-nation-one-factory model, in which the economy is maximally centralized and nationalized to allow for rational, efficient large-scale mass production. This model justified the direct intervention of political leaders and bureaucrats in the economy. The NEM officially replaced this direct intervention with a restricted market. To ensure this change in practice, Party officials reorganized the Party-state and hired a multitude of economists. The influx of economists into powerful positions strengthened the reform network because Party-state institutions became imbued with reform economic ideas and filled with economists with connections to other reform-minded colleagues. Existing economics educational institutions were also expanded, and new institutions established, which employed reform-minded economists. Within these institutions, economists were trained within the tradition of reform economics, which included Western mainstream economics, mathematical economics, and management training. Reform ideas spread throughout the Party-state and society through networks of economists and the institutions reorganized by the NEM, thus strengthening the perception that these ideas were true. These processes would have consequences far beyond the original intentions of Party-state leaders.

New Employment Opportunities

The NEM introduced free market policies, including market-determined prices and company-based decisions, which appeared to lessen the need for economists because the market would take over production and price decisions. Economists, however, had already linked the reform with improvements in their own profession. The seemingly self-regulating mechanism assumed a whole structure of reform economic mediators, who had the expertise to make the mechanism work as if it were self-regulating. The Party-state leadership agreed that the NEM demanded changes in economic work and the economics profession. As a result, economists gained a wide range of employment opportunities, new professional institutions, and further control of their own profession.

In preparation for the NEM, the Party-state both expanded the number of jobs for economists and provided a new role for economists.[1] According to the Party declaration, the NEM demanded "a directing apparatus that commands with solid

[1] During World War I, and even more during and after World War II, the U.S. government professionalized American economic science in similar ways (Bernstein 1990).

self-confidence and understands the essence of the reform well."[2] To meet this demand, the Politburo reorganized the Party and state bureaucracies, employing more economists than ever before and retraining many others in economics. The Party-state leadership considered economists the "new generalists" (Kemenes 1981b: 252) because economic science was considered the general knowledge necessary for any government job dealing with the economy. Before the NEM, the Party-state had promoted an ideological worldview education in Marxism-Leninism as necessary for all government job because this education provided the correct orientation to any task. The NEM shifted the language and knowledge of governance.

The NEM also altered the form of governance, giving economists a central role. The reform substantially devolved decision-making authority from central authorities to companies. Central planning authorities were to relinquish their power to make detailed operative decisions for companies, so that companies could make their own decisions based on their interests in profits. In the place of the traditional planning system, central planning authorities were supposed to make national economic plans with broad strategic goals and convince companies to fulfill these plans through manipulating the financial conditions of the regulated market. The central Party-state apparatus was reorganized in line with the new focus on long-range strategic planning and broad policy making. Since economists had successfully claimed professional authority over the market, the central apparatus hired large

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[2] PIA 288/5/394/1966, p. 301. "Proposal for organizational changes connected with the economic reform," Politburo meeting, May 3, 1966.

numbers of economists to fill these new positions, which greatly benefited economists. As a result, "Economics students graduated into a society in which the prestige of economists was significantly increasing and the declared need for economists and economic view was stronger than ever" (Hrubos 1987: 148-149). The NEM provided a new world of employment opportunities for economists.

This altering of governance had a profound effect on the polity and society more generally. The mobilization for the NEM provided economists with new network connections and resources, which they could use to promote later reforms. During the mobilization, hundreds of economists met for months to discuss the reform. From such work, economists met other like-minded colleagues throughout the Party-state apparatus. This reform network could be utilized to begin discussion of further reforms. Moreover, since increasing numbers of reform economists began working in the central Party-state apparatus, they imbued these institutions with their reform perspective and mechanism view. Finally, the preparation for the NEM made large groups of people aware of reform ideas and economists, which had a lasting effect. This "institutional residue" of individuals, institutions, and ideas remained a resource for economists to mobilize for further reform.[3]

In the Party structure, the Politburo formed many new departments. Most important were the advisory divisions that worked directly for the Party's Central

[3] The term "institutional residue" comes from Seleny (1993).

Committee. The Economic Policy Division (EPD) was created to replace the State Economic Division (SED), the Industrial Division, the Agricultural Division, and the Construction and Transportation Division.[4] In the EPD, all the previous economic divisions now came under the leadership of Rezső Nyers, the main organizer of the NEM. While the previous divisions had intervened in the detailed everyday operations of companies, the EPD embodied the Party's shift from this operational intervention to broader economic policy, which the NEM required. EPD employees sought to manage the implementation of the Party's economic policy at the state and ministerial levels, rather than at the company level.[5] As a result of this shift in work focus, many operational divisions, such as the Industrial Division, were closed and those with knowledge of the detailed operations of companies were transferred to jobs outside the central Party-state apparatus. Nyers then hired those with skills and knowledge in economic policy, such as investment policy, living standards policy, or methods of economic management. In contrast to the Party's previous focus on

[4] PIA 288/5/394/1966, p. 301. "Proposal for organizational changes connected with the economic reform," Politburo meeting, May 3, 1966.

[5] This management was limited to general party supervision over the ministries and central agencies that dealt with the economy, such as the National Planning Office and the Finance Ministry. The EPD also controlled important employment decisions in other smaller agencies (PIA 288/5/413/1966. "The December 27, 1966 Politburo decision about the duties and organization of the Economic Policy Division," December 27, 1966).

company operations, the EPD symbolized the new emphasis on economic policy and economists.[6]

In the government, the number of economists employed grew dramatically. As with the reorganization of the Party's bureaucracy, the economic ministries and agencies were also rearranged to expand analytical and evaluative activity, as well as long-term planning, while decreasing daily operative activity.[7] This turn toward broader economic policy issues meant the employment of economists. Many departments were removed, and the number of staff decreased. At the same time, each ministry was required to have a department for economic analysis, as well as departments for development, management, international concerns, personnel, and education (Kemenes 1981b: 255).[8] Each ministry also had at least one institute for economic research. Some ministries, such as the Ministry for Internal Trade, had 2 or 3 economic research institutes.[9] The following table shows that from 1967 to 1970 ten new economic research institutes were formed:

[6] The Politburo also maintained smaller economic advisory committees, which reported to Nyers. The State Economic Committee was made up of 8 to 9 people who prepared the more important economic proposals for the Central Committee and the Politburo (PIA 288/5/394/1966, pp. 302-303. "Proposal for organizational changes connected with economic reform," May 3, 1966). In addition, they maintained the Economics Cooperative (Közgazdasági Munkaközösség), a consultative body. The 30 to 40 members of this body discussed comprehensive economic policy problems and theoretical questions (ibid., p. 303).

[7] PIA 288/5/442/1967. Report by Lajos Rév about the reorganization of economic ministries to the Politburo, Dec. 28, 1967.

[8] PIA 288/5/442/1967. Report by Lajos Rév about the reorganization of economic ministries to the Politburo, Dec. 28, 1967.

[9] HAS PEC 21/9/1974. "Preliminary Discussion Document about the connections of the functions and tasks of domestic economic research institutes and their cooperation." Prepared by Tamás Földi for PEC, March 26, 1974.

Table 5a: The Distribution of Economic Research Institutes According to the Year Established[10]

Before 1959	1
1959-1962	6
1963-1966	8
1967-1970	10
After 1971	2
Total	27

The creation of new economic research institutions within the state apparatus, particularly during a general reduction in central state personnel, increased the influence of economists within the Party-state.

The National Planning Office (NPO) experienced changes far beyond the introduction of new research institutes. According to the later president of the NPO, István Hetényi, the NPO had to be weakened for the NEM to succeed (1987: 241). In the 1950s, the NPO was extremely powerful and dominated by engineers and technicians. These planners created plans in physical units (i.e. tons of steel, number of eggs) and then added prices onto their calculations, thus making their decisions without cost-benefit analysis or paying attention to financial concerns. The planners also wielded much personal power over the everyday workings of companies. One economist who began working at the NPO in the mid-1960s remembered these

[10] HAS PEC 21/9/1974. "Preliminary Discussion Document about the connections of the functions and tasks of domestic economic research institutes and their cooperation." Prepared by Tamás Földi for PEC, March 26, 1974.

planners, who then found themselves in the minority.[11] These planners were older men from an earlier generation. She thought of them as good engineers but out of place because they had a different philosophy of planning than the dominant economic view. They had a technical view, "a rigid view of possibilities." They felt cheated because they were good engineers. The NPO embodied the old way of planning, which the NEM was supposed to end.

The NEM gave priority to economic policy and financial skills. The Politburo restructured the NPO in line with these priorities. The Politburo decreased the number of departments from 20 to 13 and the number of staff. Many technical employees were sent to marginal departments or to companies.[12] The Politburo also removed the old NPO leadership. In 1967, the president of the NPO was replaced by Imre Párdi, the former director of the Party's Economic Policy Department and an organizer of the NEM. This change in leadership made certain that the NPO would implement the necessary changes and work according to the spirit of the NEM.

In contrast to its traditional focus on detailed operative planning, the NPO emphasized strategic planning, which economists dominated. In 1966, the NPO created its Institute for Economic Planning, which dealt with economic analysis, planning models, application of math models, planning theory and the economic mechanism, regional planning, and information research (Kovács 1968). In 1968, the

[11] Personal communication with Zsuzsa Bekker. By 1967, when she arrived at the NPO, these planners had been placed in a marginalized department.

NPO also formed its Long-Term Planning Department, led by mathematical economist Maria Augusztinovics, to conduct strategic planning. These institutes employed many young economists. Over a five year period, the NPO hired 60 to 70 new graduates of the Economics University.[13] These new employees excelled in math, computers, and languages. They were part of a new generation of students who gained influence very quickly because of the new employment possibilities.[14] They were respected because they understood complicated methods and mathematics, as well as Western literature. In the NPO, these new graduates were employed throughout the agency, but especially in the new research institutes.

The Ministry of Finance was the main challenger to the NPO's power and approach.[15] From the mid-1950s, the Ministry of Finance had been a center for reform thought and proposals. Many of its officials promoted mechanism reform and were part of the network of reform economists. In addition to its connection to the mechanism movement, this ministry had responsibilities that were at the core of the NEM. The Ministry of Finance dealt with financial balances, the national budget, banks, and company finances. Its officials had an interest in the NEM because it increased the importance of their work. With the NEM, prices, budgets, and money

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[12] The companies were happy to get technicians because they had been well educated in planning at the NPO (Hetényi 1987: 240).

[13] Personal communication with Zsuzsa Bekker in 1996.

[14] Swaan (1993) discusses this new generation of economists who emerged in the late 1960s. They considered Marxism-Leninism as economically unhelpful and had decided that the economic system was not working well.

[15] Bachman (1991) discusses similar ministerial fault lines in the case of China.

more generally were supposed to have a concrete meaning, rather than just being arbitrarily applied to already created plans. Therefore, ministry officials could actively take part in the creation and monitoring of plans, which meant invading the area of work controlled by the NPO. In contrast to the NPO and the other ministries, the Financial Ministry added new departments and increased its staff overall.[16] Of particular importance was its new research arm, the Institute of Financial Research (IFR), which began January 1, 1968 (Wilcsek 1970). At the IFR, economists studied financial regulators, monetary questions, and the financial systems of Hungary and other countries. This institute later became a center for critical reform economics and democratic opposition. The IFR and the Ministry of Finance had an interest in the success of the NEM because it increased their influence in government policy-making and administration.

In addition to expanding positions within important governmental economic agencies,[17] economists also had new responsibilities within companies. Before the NEM, company economists focused on fulfilling plan targets and recording this fulfillment. With the NEM, company economists now had to make decisions about

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[16] PIA 288/5/442/1967, second attachment, p. (68). Report by Lajos Rév about the reorganization of economic ministries to the Politburo, Dec. 28, 1967. The Ministry of Internal Trade and the National Price and Materials Office were also enlarged (ibid.).

[17] In addition, the Central Statistical Office (CSO) had at least two institutes run by economists. In 1967, the CSO established the Economic Research Institute (Gazdaságkutató Intézet) (PIA 288/15/121/1967. "The January 30, 1967 Position statement of the Economic Policy Committee on establishing the Economic Research Institute," January 30, 1967). The ERI was to have 15 to 20 highly qualified research economists, as well as statisticians, mathematicians, and technical assistants. The ERI was formed to provide economic information, for which the introduction of the economic mechanism had "higher demand." The CSO also had the Laboratory of Statistical and Mathematical Methods for Economic Application (Halabuk 1971).

production based on financial concerns, do at least simple forms of marketing, and set prices (Forgács 1969). The priority that the NEM bestowed to financial concerns further empowered economists and accountants in companies, in contrast to engineers and technicians whose decision-making powers were increasingly constrained by concerns about costs and profits.

The NEM provided economists many new employment opportunities. Party-state leaders had become convinced of the need for economists for the reform's success. While the quantity of positions increased, the economists' role also changed. The turn toward economic policy and away from operative intervention in companies changed the nature of governmental work and expertise. Economists became the new generalists, who had the necessary knowledge to manage economic matters and meditate between politicians and economic actors. While the NEM decreased the size of many agencies, such as the NPO, economists gained new positions especially within new research institutes and departments devoted to economic analysis. Those with operative knowledge were moved out of the central apparatus. As a result, economists benefited greatly from the reform that they themselves promoted.

Training New Economists

To fill these new positions, the Party and state worked quickly to increase the number of economists. According to a 1969 National Planning Office report,

> the New Economic Mechanism's requirements place at the forefront the role of economic work in economic management and direction. This means that we need to pay more close attention to the quantitative and especially qualitative development of the training of economists.[18]

The Planning Office (see Table 2) prescribed a substantial increase in the number of new economists over the next 10 years:

Table 5b: Planned Increase in the Number of Economists between 1965 and 1980[19]

Degree Level	Number 1965	Number 1980	Percentage Increase
University	12,000	23,000	192%
Technical School	8,200	43,000	525%
Total	20,200	66,000	326%

[18] PIA 288/15/159/1969, p. 1 (22). "The economist and management expert demand and training," March 11, 1969.

[19] PIA 288/15/159/1969, p. 3 (24). "The economist and management expert demand and training," March 11, 1969.

The Party-state saw the NEM as requiring an army of economists.[20]

To obtain the planned levels, educational institutions had to be expanded and new institutions created. The NPO planned to increase the number of students at the Economics University by a third and opened a new branch of the University outside Budapest (in Pécs) to meet new enrollment demands (Tóth and Pósa 1985: 323). Technical colleges were also supposed to help meet these demands. The Educational Reform Act of 1961 had already established a series of technical colleges providing credentials in bookkeeping, accounting, business correspondence, and factory management (Kemenes 1981b: 248). The NPO ordered that these institutions double in number. Not only did the NEM require a quantitative increase, but all the institutions for economic education also needed to make a qualitative change. According to the NPO, the reform required a new kind of economist, who could do economic analysis, decision-making, independent marketing, and management. To meet these demands, educational institutions received modern computers, language

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[20] The actual increase in economics students was particularly remarkable in comparison with the long-term reductions in technical students and the short-term reductions in students overall:

Table 5c: Yearly Counts of College Students

	Technical Students	Economics Students	Overall Students
1966/67	32,404	7,693	89,544
1967/68	31,419	7,700	83,938
1968/69	30,276	7,643	78,727
1969/70	29,543	8,040	78,889
1970/71	29,464	8,280	80,536
...			
1980/81	29,595	11,222	101,166
...			
1989/90	22,263	11,968	100,868

(Sources: Központi Statisztikai Hivatal 1973, 1982, 1992).

laboratories, teachers, more space, and permission to offer courses in a wide range of areas related to the NEM, such as mathematics and marketing. As a result of the NEM, economists gained more educational institutions, new resources, and a new orientation in training.

The Party-state leadership also saw the need for a new type of company manager. From 1968, managers were trained at the new National Management Development Center (NMDC) (László 1971). This center became "the central institution coordinating all management training and its policies in Hungary."[21] The United Nations and the Hungarian government jointly funded the NMDC.[22] The center was understood as teaching the principles and methods of "modern management," making no distinction between capitalist and socialist methods. Between 1968 and 1970, 1,350 managers of medium-sized and large enterprises received training in over 50 refresher courses. Participants could take courses in marketing, production organization, information systems, computer applications, management of assets, and profit optimization. The NMDC used many teaching techniques that were completely new to Hungary, including case studies and role playing. While Hungarians also taught in this center, foreign instructors taught there for 6 months at a time. Between 1968 and 1970, there had been four instructors from

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[21] FF Reel 2151/PA 709-0476. "Evaluation of Management Education Programs in Hungary, Poland and Romania," May 3, 1976, pp. 4-5 (underline in text).

[22] It appears that the NMDC was organized as a result of the experiences of György Varga on his Ford Foundation study abroad trip in the US. Many of the aspects of the Center are what Varga reported in Economics Review in detail (Varga 1968).

the Soviet Union, four from England, one from the US, one from Canada, one from France, and one from Sweden. The NMDC created a new manager, who worked in the spirit of the NEM and had the required "modern" management skills.

Higher education in economics also incorporated Western-oriented management studies and methods. Between 1970 and 1973, the Ford Foundation funded a management education program in Hungary.[23] Under this program, 17 Hungarian professors visited American management centers for 9-12 months, while a couple of American professors visited Hungary. The intent of this program was to establish a strong core of management instructors in Hungary. The Ford Foundation considered the program quite successful.[24] These instructors established new management courses and seminars at the Economics University. At the Economics University, New York University also organized a "management game," in which groups of students were given management problems that they had to solve in competition with the other groups. Western-oriented management training gained a small stronghold in the Economics University as a result of the NEM.

In 1969, the Economics University founded the Rajk Collegium, which institutionalized critical reform economics in higher education. The Rajk functioned

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[23] FF Reel 2151/PA 709-0476. "Evaluation of Management Education Programs in Hungary, Poland and Romania," May 3, 1976, pp. 3-7.

as an elite professional school and was relatively autonomous from the University administration (Chikán 1995). Students were socialized into the reform economics community and into mainstream Western economics profession. They read literature and took classes in both of these traditions. The collegium director himself had studied management in the United States, and management studies remained an important area at the collegium.[25] Rajk's lecture series included some of the best economists and highest economic officials, including János Kornai, Miklós Németh (the top economic expert in the Party), Kenneth Arrow, Wlodzimierz Brus, Herbert A. Simon, and many others. Their instructors also participated in reform economic circles. At the beginning, some of the most well-known and popular professors from the University taught at the Rajk, such as Ivan Berend. Later, economists from other institutions, including András Bródy and János Kornai, also taught courses. Student participated in debates on contemporary controversial topics, and some went on to be part of the democratic opposition.[26] The Rajk also encouraged alumni to remain in contact and often invited them to teach courses. The Rajk provided an important

[24] FF Reel 2151/PA 709-0476. "Evaluation of Management Education Programs in Hungary, Poland and Romania," May 3, 1976, pp. 6-7. The Ford Foundation had other intentions as well. Officials in the Ford Foundation hoped to move eventually from management education to related fields, such as economics, planning, and social science research, and even to have "important spill-over effects" in higher education and the functioning of their economic systems (FF Reel 2151/PA 709-0476. "Request for Grant Action" to McGeorge Bundy from David Bell at the Ford Foundation, May 4, 1970).

[25] FF Reel 2151/PA 709-0476. "Ford Foundation Expenditures on Hungarian Exchange Program," March 17, 1973.

[26] Their critical side emerged more publicly in a 1984 meeting at the Rajk on "How should we build castles in the air?" Éva Voszka is just one important democratic opposition member who attended the Rajk.

professionalizing forum and a place to have young economists meet with established reform economists. Educational institutions that emerged from the NEM created a new style of economics education and a new type of economist.

Other Professional Changes

As a result of the NEM, economists gained more control over their own profession. In 1967, the Hungarian Academy of Sciences reorganized the Economics Subcommittee of the Scientific Qualification Committee, which decided on graduate degrees. Previously, economists had complained about the lack of economists with degrees on this committee.[27] On the newly reorganized subcommittee, all the 17 members were economists with degrees, except for one, László Hay, who was a member of the Academy of Sciences.[28] As a result, the economics profession had more influence over its own qualifications and thus over who could be considered a trained economist.

Economists had long demanded accurate and complete data. István Friss officially argued for the establishment of a centralized economic information center because the new methods of economic direction and increased enterprise

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[27] HAS PEC 15/1967, p. 5. Handwritten meeting minutes of the Permanent Economics Committee, Oct. 19, 1967.

[28] HAS IX. Division 15/1/1967. Meeting minutes of the Scientific Qualifications Committee, Dec. 6, 1967. Other disciplines had their committees changed as well.

independence "requires" practical economic information.[29] Such an information center had been closed in 1955 due to strong ideological and methodological clashes within the center.[30] On January 1, 1966, the Economics Documentation Center (EDC) was reestablished. The EDC supplied both leaders and economic researchers with data, information about new research, and translations of foreign publications.

Company legislation in the NEM was extended to research institutes. As a result of the NEM, companies could make many of their own production and financial decisions. Research institutes were treated similarly. The Politburo declared that research institutes could control their own credit and use financial incentives.[31] Researchers were allowed to arrange independent research contracts with governmental agencies or other institutions and thus take on second jobs.[32] The Politburo further ordered that research institutes allow increased independence, as well as "democracy," within the work place.[33] Researchers benefited from the NEM legislation originally intended for companies.

Finally, the economics profession gained two new journals. As discussed in the previous chapter, ACTA Oeconomica began in 1966 and promoted the NEM

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[29] HAS EDC 188/1965, p. 1. A proposal to establish the Economics Documentation Center by István Friss, 1965.

[30] See HAS EDC 188 for documents on these clashes.

[31] PIA 288/5/491/1969, p. 3 (87). Meeting minutes of the Politburo, June 2, 1969.

[32] HAS Law 11/1966 allowed employees at the Economic Research Institute to have secondary occupations.

[33] PIA 288/5/486/1969. Meeting minutes of the Politburo and "Report to Politburo on the situation of scientific research," March 24, 1969.

abroad. This journal allowed Hungarian authors to adapt their articles for foreign audiences, which meant using Western sources, terminology, and methodology. This journal also became a forum for articles by foreign authors.[34] In addition, in 1968, the Hungarian Economics Association began publishing Szigma, a journal for mathematical economics ("New Hungarian" 1968). The number of articles on mathematical economics increased substantially as a result of this journal.

Economists had linked the success of the NEM with their own professional demands. Beyond new employment opportunities and educational resources, economists gained a central data service, the possibility of having second jobs and thus improved incomes, two new journals, and increased control of their own qualification system.

Changes in Economic Knowledge

Reform economics became very influential because the NEM had legitimated the knowledge and practices of reform economists, which led to the employment of many young economists newly trained in this critical spirit. Reform knowledge also became a part of the economic reeducation of economists, politicians, and bureaucrats to cope with the environment of the NEM. This change in economics knowledge can be seen in the professional journal Economics Review.

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[34] HAS PEC 189/1962-65. Meeting minutes of the Permanent Economics Committee, Oct 12, 1965.

In their scientometric study of Economics Review, Such and Tóth (1989) found that the influence of Marxism in Hungarian economic thought had strongly decreased from 1963 to 1987 (p. 1217). In 1964, Hungarian economists had cited the classics by Marx, Engels, and Lenin about 12% of the time, while citations of Marxist classics had dropped to 1% by 1987. Citations of Marxist classics also decreased sharply in years of reform discussion and implementation. In 1968, fewer than 2% of the citations were of Marxist classics. During periods of reaction against reforms, these citations grew. For instance, in 1972, 15% of the citations were made to the classics, but this percentage quickly fell the following year. From 1963 to 1987, Hungarian economists essentially stopped citing the Marxist classics.

Hungarians also very rarely cited Soviet authors. Such and Tóth found that from 1963 to 1987 the Soviet authors most cited were Stalin and V. V. Novozsilov. During the entire period, however, these two were cited a total of 11 times and 10 times, respectively (ibid., 1190).[35] Furthermore, Russian language citations represented 3% of all citations, falling to a little over one percent by the late 1980s. At the same time, Hungarian economists cited Hungarian-language articles 65.3% of the time and English-language ones 22.7% of the time. Hungarian economists did not support their arguments with Soviet citations.

Of foreign authors, Hungarians mostly cited British and American economists, which reflected Hungarian economists' increasing orientation towards

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[35] Such and Tóth did not include Lenin in the category of Soviet authors.

mainstream Western economics. Hungarians mainly referred to foreign works that had been translated into Hungarian. These works increasingly belonged to the main trends in Western economic science. From the mid-1970s, the number of citations of authors from the dominant trends grew from 4% in 1975 to 24% in 1985 (ibid., 1224), reflecting a closer connection to Western economic science. One of the most cited Hungarian language works was the classic American textbook, Samuelson's Economics, which had been published in Hungary in 1976 (ibid., 1192).[36] This textbook provided a comprehensive view of Western economic theories and the American economic system (ibid., 1193). Finally, the most cited foreign language works were by Solow, Samuelson, and other Western economists, while Marx's Grundrisse tied for fifth place with Friedman, Robinson, and Meadows (ibid., 1194). In sum, when they referred to foreign authors, Hungarian economists most often cited those in the Western mainstream and rarely Soviet or classical Marxist authors.

Most citations, however, were to Hungarian economists and particularly those critical of the Hungarian economic system. Of the most cited works in the 1971-1979 period, besides three works by Marx, the rest of the authors were important reform economists: János Kornai, Péter Erdős, and Márton Tardos. From 1980 to 1987, two of Kornai's works and Tamás Bauer's text on investment cycles were the most cited. One of these works by Kornai, Economics of Shortage, was so critical of socialism that Party leaders in other socialist countries had banned it. After 1978, Kornai

[36] This textbook was the fifth most cited Hungarian language work.

moved ahead of Marx as the most cited author. Kornai formed an important bridge between Hungarian economics and mainstream Western economics. His works integrated Hungarian results into the international literature and connected Western economics to Hungarian issues.

The NEM brought significant changes to the economics profession. Economists had linked the success of the reforms with improvements in their own profession. The reform formally sanctioned the institutionalization of the market mechanism ideas of economists, which included an extensive role for economists as the necessary mediators for the supposedly self-regulating mechanism. The Party-state had agreed that the reforms required not only an increase in the number of economists, but also a new role for them. The very nature of government expertise was altered as economic knowledge replaced political, Marxist-Leninist-oriented knowledge. Also economists replaced technical professionals who had had knowledge of the operational details of the economy. Through new educational resources, participation in the academic qualification process, and new professional resources, economists gained increased control over their own profession. The NEM benefited economists because they had successfully claimed expertise over the market mechanism.

Beyond empowering the economics profession and changing the nature of socialist government, the NEM also further depoliticized and economized society.

This process had already begun immediately after the 1956 Revolution. At that time, Party leaders had sought to regain stability and legitimacy. On the one hand, they restricted political discussions to the highest Party authorities and removed political reform from the agenda, in order to depoliticize the population. On the other hand, they sought to reorient the population toward economic goals through a profit-sharing system and the expansion of consumer items. Party leaders offered the economy as a sphere relatively free of political intervention for individual and group action based on financial interests. The NEM further intensified these trends because it expanded market interactions beyond individual consumption, profit-sharing, and agriculture.[37] Social interaction took on a new dynamic with this expansion because more autonomous spheres of action outside the state were at least formally sanctioned. Furthermore, social interaction was increasingly understood in market terminology, rather than revolutionary communist, political, or Marxist-Leninist nomenclature. Kornai (1993) recognized the importance of market reform: "Market socialism was a great training school, opening the eyes of thousands and thousands of economic leaders and economists and accustoming them to think in market terms" (p. 99).[38] The NEM also formally separated the market from the Party-state, largely allowing only indirect intervention by the Party-state in the market through financial

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[37] Kornai (1996) states that with the NEM "a milestone was reached when the classical command economy suddenly ended, and a curious hybrid form of economy took over" (p. 25).

[38] Kornai (1996) elsewhere compares Hungary with the rest of Eastern Europe and finds that "far more people in Hungary had gained experience of how a market operates, in the "market-socialist" state-owned enterprises, in the private sector or grey economy, or possibly by studying or working abroad" (p. 29).

tools. The role of the Party-state was officially diminished, and profits and consumer demand became the sanctioned regulators of social action. Therefore, society took on a relatively autonomous existence within economic action and these interactions were increasingly understood as market interactions. These processes of depoliticization and economization were by no means complete, but the NEM intensified the creation of a depoliticized economic society.

These processes were quite threatening to the very existence of socialism. As Seleny (1993) has shown, the NEM delegitimated the older Stalinist model of socialism, while introducing a vision of socialism that was amorphous and unclear. Seleny quotes an economist, who found that later reforms in the 1980s were made easier and more palatable because of the NEM reforms:

> But it wasn't such a big step, because if in '68 we were able to declare that [for] state firms, the profit criterion and demand were the engines, and not plan-indicators, then it was much simpler to declare that this is so for the individual . . . They [the 1980s reform] fit because by '68 we had turned away from the Leninist conception of socialism as one large factory; what remained was that this wasn't an exploitative society. (1993: 145)

As a result, any reform that did not overtly seek to remove the Party from power or attack the Soviet Union could be seen as the natural heir to the NEM. This meant an endless return to reform of the economic mechanism and even more radical reforms. Each successive reform was an attempt to introduce additional Western economic institutions in hopes of creating the correct conditions for the market. By 1989, this process had reached its peak because economists and political leaders had become convinced that the market required fully capitalist and liberal democratic structures to function. The NEM, therefore, brought into question the very nature of socialism. What was the goal of reforms? Was this goal socialist? How much plan and market did socialism require? Was this really capitalism? The NEM destabilized the ideological underpinnings of socialism, which was further destabilized by the intensification of economic society.

The Backlash against the NEM

These processes were slowed by a backlash against the NEM in the early 1970s. The NEM was created with a second stage of reforms in mind, which the Party's Central Committee discussed in the fall of 1968 (Berend 1990:194). The second stage included a new banking structure, a new price system, and the reorganization of companies to eradicate monopolies. These changes, however, did not take place until much later. Even before the introduction of the NEM in 1968, the political atmosphere in the East Bloc had changed significantly, weakening political support for these reforms. The replacement of Khrushchev with Brezhnev in 1964 signaled this change, removing support for comprehensive economic reforms. East European countries continued to plan major reforms. Yet, Prague Spring and the Soviet crackdown in August 1968 slowed down reform plans throughout the region. More conservative Hungarian leaders saw the events of the Prague Spring as demonstrating the dangers involved with reform ideas.[39] Reform-oriented Hungarian Party leaders sought to maintain the NEM, but they were on the defensive.[40] By 1969, Soviet Party leaders no longer supported market reforms and soon made overt criticisms of Hungarian Party leaders (Tőkés 1996: 103). This situation reached a low point, when, in 1974, the Politburo removed Nyers, the leader of the NEM, from his position as chair of the Politburo, as well as Jenő Fock, a reform supporter, from his position as Prime Minister in 1975. The backlash lasted until about 1977, when conservative leaders were removed from the Politburo.

While the backlash removed a few leaders of the NEM and temporarily slowed the beneficial processes for economists, the backlash did not dramatically change the professional situation of economists because they maintained control of their tasks and institutions. The NEM had already made profound changes by increasing the number of students, positions, and institutions, which the backlash could not reverse. The newly reorganized Party-state structure also remained in place. While he lost his position in 1974, Nyers remained on the Central Committee and regained much of his authority a half a year later (Hetényi 1987: 338).[41] Other

[39] Tőkés (1996) interestingly claims that there was an upsurge in mental breakdowns within the Party resulting from experiences with the NEM (p. 103).

[40] PIA 288/5/471/1968. Meeting minutes of the Politburo, September 13, 1968. A Politburo report discussed at this meeting stated that events had strengthened sectarians and dogmatists, who saw the reason for the problems in the international workers' movement as caused by right-wing phenomena (ibid., Report post-dated September 17, 1968, p. 13 (58)). The Politburo members decided that Party policy would not change (ibid., pp. 32 (38) – 34 (40)).

[41] Even though Nyers remained a Central Committee member and the ESI director, he felt that this work was not important and that his career had ended with his removal from his job as Central Committee secretary (PIA 288/5/715/1977, p. 257. Letter from Nyers to Kádár, March 30, 1977).

reformers and their academic allies remained in their positions (Seleny 1993: 31).[42] Economic matters and economists were no longer at the forefront of public debate, but economists continued to work behind the scenes. Finally, people remembered reform ideas and experiences, as well as the reasons the Party gave for the urgency of the NEM. This "institutional residue" of individuals, institutions, and ideas continued outside official discourse and would return to importance at the end of the backlash.[43]

What the World Economy Requires

Of the many topics discussed by Hungarian economists, two topics were of particular importance for the post-NEM period. These topics were the world economy and the second economy. During the 1970s, Hungarian economists saw the world economy as increasingly impinging on the Hungarian economy first with the oil price shocks of 1973 and then with the debt crises of 1979-1980. According to economists, the world economy had demands that had to be met. At about the same time, economists invented the term "second economy" to describe a broad range of private business. The Party implemented laws in 1982 to legalize this sphere, making

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[42] As Seleny (1993: 122) and Csizmadia (1995) show, in contrast to economists, prominent sociologists and philosophers were asked to leave the country or were prohibited from publishing. These scholars included Iván Szelényi, Agnes Heller, and György Márkus.

[43] The term "institutional residue" comes from Seleny (1993). Berend (1990) makes a similar statement: "The institutional continuity which had been salvaged from the reform mechanism was shortly to prove a good base from which to take up the reform again. Despite the temporary victory of the reform's opponents, the political and personnel conditions for this change were provided by the leading group in the party and government, whose determining influence was János Kádár" (p. 234).

a profound change in the economy. Economists presented these two spaces as bastions of the market, a sphere where economists had already successfully made claims to expertise. Economists presented these two realms as impinging on Hungary and forcing change from both the outside, the world economy, and the inside, the second economy. Economists became spokespeople for these two expanding realms, which increased economists' influence and status.

Recognition of the World Economic Problem

In 1973, worldwide oil prices quadrupled, which triggered price increases in raw materials and price decreases in industrial finished products (Bannock et al. 1992: 212; Berend 1990: 232). According to Berend (1990), these sudden price changes led to strong inflationary pressures in Hungary because its economy was and remains very dependent on foreign trade. Hungarian political leaders responded by trying to protect the economy because they did not understand, due to "false ideology," that the price hikes were caused by a structural change in the world economy (ibid., 232-233). Yet, Berend continues, "The experiences of the half-decade after the oil crisis had made it perfectly plain that the existing policy would lead to insolvency . . . Restoring the balance of payments required a greater market orientation and market sensitivity of companies" (ibid., 234), which meant a return to a reform of the economic mechanism.

Yet, in the 1970s, it was not obvious that the Hungarian economy had to adapt to the world economy, nor that the introduction of a market mechanism would help the economy adapt. Writing about public opinion in the 1970s, Angelusz (1984) found that, while Hungarians later understood that the world economic changes of the 1970s required fundamental reform, "at the time...this was by no means obvious" (p. 5). This experience with the oil price shocks trained Hungarians to see the situation as requiring significant change. This training required "a society-wide transformation in public thinking and a consciousness of the problem" (ibid.). Hungarian economists themselves played a primary role in this transformation in consciousness. Berend himself considered worldwide oil price increases as naturally leading to reforms of the economic mechanism because he was part of the network of reform economists who saw the world in this way. At the time, however, it was not necessarily some, presumably dogmatic Marxist, ideology that blinded officials to these connections, but rather that the oil price shocks themselves did not dictate what the mode of action should be.[44] In the early 1970s, a group of Hungarian economists argued that the world economy had fundamentally changed and the Hungarian economy also had to make a fundamental change.

At first, Hungarian officials considered the oil price shocks part of a crisis of capitalism, from which socialist countries were immune.[45] Others determined that the

[44] In the West, there was also debate about the nature of economic problems in the 1970s.

[45] Unless otherwise cited, the information in this paragraph comes from Berend (1990: 232-234).

oil price shock was not a major crisis but a temporary downswing in the capitalist business cycle, from which socialist countries were still immune. History supported the belief in socialist immunity because the Soviet Union had avoided the Great Depression by isolating itself from the outside world. Eastern European countries received much of their energy and raw materials from other CMEA countries, which in a sense protected them. The Soviet Union cushioned the price shocks by keeping its oil prices low, raising them over a five-year period. In line with these views, Hungarian Party leaders argued for the isolation of the Hungarian economy from the world market to stop its dangerous influence and introduced high subsidies to keep domestic prices low and maintain living standards.

József Bognár promoted the world economy within the Party. Bognár had long been part of the reform economic network and was a powerful member of the economics community.[46] In the mid-50s, he had worked with Imre Nagy and later helped organize the NEM. In the early 1960s, he began conducting research into global development and worked in Ghana with other Hungarian economists. Upon returning to Hungary, he established the Afro-Asian Research Center, which became the World Economic Research Institute in 1973. In 1969, he led the newly formed Council on the World Economy. He established the Council to advise Party-state leaders on international economic questions. This council of government economic

[46] This information comes from Simai (1996) and Halm (1996).

experts and academic researchers organized and participated in trade negotiations and scholarly conferences on foreign trade with potential trading partners.[47]

According to Kemenes (1981b), who worked for the Council on World Economy, Bognár was one of the first Hungarian economists in the early 1970s to understand that the oil price explosion was not cyclical, but rather signified a major structural change requiring economic reforms. As Kemenes (1981a) explains, the economy had been expanding since the Industrial Revolution. This expansive period had reached its limit largely due to the depletion of nonrenewable resources. The Council on World Economy had already indicated in 1971 that tensions and turbulent changes could be expected as energy and raw material reserves were exhausted. Oil price shocks were merely the manifestation of endogenous problems within the world economy, arising from the depletion of these resources, which shifted the hidden structures of the economy. This shift signaled a "new era of world economy" (Bognár 1976: 228), which required national economies to adapt in new ways.

Economists around Bognár claimed to have a privileged relationship to the world economy because of their expertise. Kemenes (1981b) argues that economists could perceive these hidden structures because they had expertise in forecasting:

> In this unexpected situation only the economists dealing with research and forecasting on medium- and long-term world economic processes were able to undertake the evaluation of new phenomena and answer the questions facing the government. (p. 259)

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[47] In November 1969, for example, Bognár and his delegation met with a British delegation to discuss bilateral trade and economic ideas (Bognár 1970). In 1971, Bognár's team met with a Dutch delegation (Földi 1971).

Through statistical time-series analysis, economists could show that the world economy was in a new era. Forecasting had only recently gained popularity in Hungary, particularly with the emphasis on long-term planning from the NEM and the increasing availability of computers. Economists working for Bognár made forecasts of world economic activity through these statistical techniques and thus could reveal the shift in the hidden structures of the world economy.

Bognár did not just promote the recognition of the new world economic era, but he also incorporated this recognition into the reform economic worldview and network. Reform economists perceived economic problems as emerging from a malfunctioning economic mechanism. To solve these problems, reform was required to create a relatively autonomous economic sphere with companies interacting through a market mechanism based on financial levers. Central state intervention, beyond the tinkering with the financial levers, was not only unnecessary, but also harmful. Reform economists like Bognár saw the oil price shocks as demanding a return to mechanism reform: "The system of control (the mechanism) needs to be improved" (Bognár 1976: 231). In fact, the world economic changes "demanded" a radical rearrangement of national economic production and the further reform of the mechanism, which included an intensive stage of development, export concentration, and development of industries based on world economic demand (ibid., 227-230, 241). Other economists made connections to reforms. For example, the Minister of Finance, Lajos Faluvégi (1975) called for changes in the structure of production for export orientation. Tardos (1975) called for a decrease in central planning, leaving enterprises to respond on their own to world market prices. The world economy demanded reform of the mechanism, structural change in production, long-term planning, a new growth path, an intensive development plan, domestic prices based on the world market, and measures to gain international financial balance, as well as other reforms. Bognár and others thus incorporated the world economy into the net of reform economic ideas. With the recognition of world economic problems as Hungarian economists presented them, mechanism reform again became the object of political discussion.

Bognár and his colleagues advocated this vision of the world economy in many arenas. First, they presented proposals to the Party-state leadership through the Council on World Economy. Economists were also increasingly included in consultative meetings on issues of energy and mineral resources, which had previously been attended solely by engineers and geologists (Kemenes 1981b: 256). Second, economists made use of scientific forums, publications, and the mass media to argue for the need to transform the whole structure of the Hungarian economy for the new world economic situation.[48] Bognár and other reform economists published articles about the reforms required by the new world economic era (e.g. Bognár 1976; Kozma 1975; Tardos 1975). They also promoted their ideas in public forum,

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[48] Berend (1990) also remarks, "Rallying behind the need for changes and further reform were economists and economic staff at various levels, along with broad sections of the intelligentsia" (p. 234).

such as in 1975 at an economics conference in honor of the 30th anniversary of Hungary's liberation (Balázsy 1975) and in Bognár's inaugural address to the Academy of Sciences on international economic relations (Bognár 1975). The Council on World Economy began publishing a series on world economic issues, called "Trends in World Economy." Bognár became editor of the English language economics journal ACTA Oeconomica in 1971 and used this journal as a forum to promote the study of the world economy. In 1972, Bognár's Council on World Economy funded an increase in the number of pages in ACTA to publish more articles on world economic issues.[49] In many ways, economists worked to bring the idea of a new world economic era to public consciousness and to connect this idea with other reform economic proposals.

By the end of the 1970s, the Hungarian Communist Party "realized" that the world economy had structurally changed, which necessitated a new economic policy. The Politburo formed ad hoc committees of economists to forge this new policy. This work resulted in the 1977 Central Committee resolution "Guidelines for Our Long-Term External Economic Policy and the Development of the Product Structure," which was a significant departure from previous policy (Berend 1990: 240-242). This resolution officially recognized the connections Bognár and other economists made between the new world economic era, an export-oriented economic policy, and mechanism reforms. According to the resolution,

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[49] HAS PEC 19/1970, p. 2. Meeting minutes of the Permanent Economics Committee, July 7, 1970.

1) Hungary must discontinue import substitution and become export oriented,
2) world economic demand must determine Hungary's development goals, and
3) there must be reforms of the system of regulators and incentives, as well as prices set close to world market prices.

The Party soon announced reform plans. Major reform plans were stalled for years due in part to Kádár's reluctance to call any implemented changes "reforms." No matter what their label, the implemented changes were substantial.[50] A price reform in 1979 and 1980 brought domestic prices closer to world market prices and made significant progress toward a uniform exchange rate. Large, monopolistic companies were broken up, and cooperatives encouraged to enter small-scale industrial production. Companies were increasingly allowed to make their own foreign trade arrangements and gained other forms of corporate independence. The Party no longer assigned company managers, but rather provided a choice of managers. Finally, in 1984, the Party resolved to return to mechanism reform.

Economists profited from the acceptance of their interpretation of the new world economic situation. Kemenes (1981b) agrees: "The era of change in the world economy that began at the end of 1973 further extended the Hungarian economist's range of tasks and responsibilities" (p. 246). During the backlash of the early 70s, some economists lost their positions and economic reform was removed from the agenda. At the same time, economists worked to change the Party's perception of the

[50] The following information comes from Berend (1990), but he finds these reforms lacking because they were not comprehensive reforms. While the reforms sought to strengthen money and commodity relations and create the conditions for markets, government activity worked in the opposite direction (ibid., 275).

world and Hungary's place within it. This perception implied particular solutions, which economists favored and fit within their network of reform ideas. With reform, economists again were invited to take part on ad hoc committees and make proposals. Kemenes (1981b) argues that "especially since 1973, when, in the new world economic situation, the decisionmakers acknowledged a growing need for the analysts' interpretations and medium- and long-term forecasts" (p. 256). With this recognition and turn toward reform, economists gained new institutions, data, and computers to conduct long-range planning and best use their expertise. Reform economists presented the world economy in a way that required a return to mechanism reform and benefited their profession by expanding their influence and resources.

The Pressure of International Financial Organizations

The IMF and the World Bank provided both financial and ideological support for the economists' argument about the world economy. Economists involved in finance had long sought to join these institutions as a way to fund mechanism reforms and to provide technical and ideological support for these reforms. The IMF and the World Bank were influential because they imposed restrictions on Eastern European governments in exchange for loans and provided training for government officials, thus disseminating their approach to economic matters. Their means of influence changed during and after the debt crisis in 1979-80, when international financial institutions became more assertive in their demands and Eastern Europe more desperate in its requests for aid. Particularly after the debt crisis, financial support from these international organizations came with increased political and ideological costs. Yet, the IMF and the World Bank helped domestic reformers connect the problems of the world economy with substantial financial reforms. The IMF and the World Bank bolstered and encouraged the supposedly natural movement from economic liberalization to political liberalization. Therefore, these international organizations played an important role in the changes in Eastern Europe, which has not been fully studied. I only briefly discuss these issues and focus on the IMF.

Domestic reformers in many countries have used the IMF to support their reform proposals. Eastern European reformers were no exception:

> when factional disputes occurred within the administration and the ruling party about what type of reform could or should be undertaken, outside agencies, and especially the IMF, played a crucial part as allies of reform-minded administrators, and even, in the later stages, of some political figures. (James 1996: 582)

The IMF can be a good ally for a variety of reasons. Beyond providing much needed money and technical assistance, the IMF appeared to be a neutral and non-political agency. In countries where this agency is accepted as neutral, reformers can use IMF suggestions and guidelines as way to influence and shape domestic debate by setting agendas, bundling issues, and shifting domestic normative discourse.[51] Reformers can further use the IMF to make covert criticisms of socialist policy and the Soviet

[51] Judith Goldstein made these points in regards to international agencies more generally in a talk at IRPS, University of California at San Diego in 1996.

Union. Polish officials informally told the IMF that "the Fund would do a good service if it produced a kind of critique of the economic policies of the socialist countries."[52] Even though IMF officials refused to overtly take on this role, the IMF does implicitly criticize socialist economic practices through the agency's monetarist approach. The IMF can thus play an important role in domestic policy-making.

Hungarian reformers had long sought IMF membership and support of the reform process. Between 1966 and 1968, Hungary, Czechoslovakia, Poland, and Romania attempted to join (James 1996: Chapter 16). In the Hungarian case, János Fekete of the Hungarian National Bank started negotiations with the Fund in December 1966. Fekete visited the IMF to explain the details of the NEM and stated that the NEM was "based on an approach broadly that of the fund."[53] However, these negotiations ended in 1968 with the Soviet repression of Czechoslovakia's Prague Spring (James 1996: 559; Fekete 1982).[54] A decade later, with Soviet support, Communist Party officials in the region again sought to use the IMF to support their policies. In 1979, Hungary tried to gain membership to support its return to mechanism reform (James 1996: 562). Hungary finally joined the IMF and the World Bank in 1982, which immediately led to price liberalizations, efforts to establish a uniform exchange rate, and plans for extensive economic reform. Hungarian negotiators successfully insisted that they secure long-term IMF funding to support

[52] This request was made by a Polish GATT representative to an IMF official (James 1996: 559).

[53] James (1996) cites Fekete's statement from the IMF archival documents (p. 559).

[54] However, in 1972, Romania did join the IMF, exemplifying its independence in the Bloc.

this reform (ibid., 563). The IMF later supported commercial banking reform and further liberalization. Domestic reformers used the IMF as an ally to strengthen their own programs.

Reform economists within the Party-state were allies that IMF officials typically choose. The Fund usually relies on transnational alliances with technocrats to enforce its agreements (Kahler 1993: 371). Generally, technocrats in finance ministries and national banks share the same policy preferences as the IMF, which makes them potential allies. According to Kahler, the IMF is most successful in governments with a coherent technocratic core to which political leaders have delegated substantial power (ibid.). The NEM had already brought together a technocratic core which favored monetary reform.

While some allies supported IMF proposals, this assistance did come at a cost. After the debt crises in Eastern Europe in 1979-1980, the IMF shifted its policies toward ensuring major policy changes in exchange for funds (Kahler 1993: 378). IMF officials increasingly intervened in the economic governance of national economies and demanded short-term equilibrium and the end of subsidies. The economic demands were often politically risky. IMF policies lead to a short-term decrease in real wages, often dismantle state enterprises and subsidies, and increase control by the financial ministries and the central banks. These changes shifted the balance of power and the structure of expertise within the Party-state. IMF prescriptions were also market-oriented. They gave priority to balance-of-payment issues over growth, equity, or other social concerns. With the 1979-1980 change in policy, the IMF also demanded political change, as James (1996) has discussed: "The price for international assistance, however, was a domestic political as well as economic liberalization. The U.S. attitude involved a leveraging of economic change into political adaptation" (p. 567). In 1982, for example, the Hungarian government was in the process of entering the IMF. Hungarian leaders usually punished the independent opposition groups by removing their permission to travel abroad. In 1982 and 1983, many opposition leaders were allowed to travel because the government saw blocking such travel as potentially damaging to its opportunity to enter the IMF (Csizmadia 1995: 256). Through its demands, the IMF intervened in economic governance and domestic politics.

The IMF also spread its financial approach, which facilitated interactions with domestic allies. With IMF membership, heads of central banks and other financial officials were taught monetarist economics and indoctrinated into monetarist views and behavior. As a result of this indoctrination, these officials then considered the agenda of the IMF as efficient and legitimate.[55] IMF promotes its approach through its courses and advice (James 1996: 576). The IMF Institute offers officials a variety of courses, including ones on transitions to market economies. The IMF's Monetary and Exchange Affairs Department gives advice and assistance on banking, supervision, payments and settlements mechanisms, and economic and

[55] These points were made by Judith Goldstein and Miles Kahler. See fn. 51.

monetary analysis. The Legal Department drafts and reviews draft legislation. The Fiscal Affairs Department provides advice on tax policy, tax and customs administration, treasury systems, budgetary accounting, public expenditure management, and social security. The Statistics Department provides guidelines for calculation of national accounts and balance of payments. This plethora of advice and education teaches domestic officials that the monetarist view of the IMF and the World Bank are not only efficient, but also necessary.

The oil price shocks in the early 70s and the later debt crisis did not dictate the necessary mode of action. Rather, economists had convinced the Party leadership of the connection between the new world economic era, mechanism reform, and their expertise. This connection was reinforced by financial and ideological support from the IMF and the World Bank. As a result, the Party leadership accepted that the world market demanded Hungary return to mechanism reform and a reorientation of economic policy.

The Second Economy

The Economic Nature of the Second Economy

In addition to claims about the demands of the world economy, other economists argued that the micro-economy had new needs. The Kádárist depoliticization of everyday life and opening of the economy as a place of relative personal freedom defined the post-1956 period. The economization of political concerns and personal life increased through the 1970s and 1980s. By 1982, the Communist Party had legalized small-scale private economic activity and perceived this activity as within the "second economy," a significantly autonomous realm.[56] While there was always private sector activity in Hungary, Hungarian economists introduced the term "second economy" in the late 1970s, which the Party put into law in 1982. The "second economy" was broad category, consisting of economic activities outside the state-organized socialist sector, or "first economy." Scholars have since acknowledged that the legalization and subsequent expansion of the second economy undermined the authority of the Party in the economy (Róna-Tas 1995, 1997; Linz and Stepan 1996: 301; Seleny 1991: 166; Los 1990: 9). In addition, the political and economic success of the second economy also made Party officials willing to give up power in 1989-1990 and helped bring a negotiated end to socialism in Hungary (Róna-Tas 1995, 1997). The relative autonomy of the second economy from direct Party control had brought about processes that the Party could not contain.

Yet, while the legitimization of the second economy had important consequences, these consequences were driven in part by the way economists presented this realm. Economists defined the second economy as operating by economic laws and having particular needs that implied economic solutions and

[56] For a discussion of the different definitions of the second economy, see Róna-Tas (1997) and Los (1990).

economists as the necessary mediators between the second economy and political leaders. Economists became the spokespeople for the second economy, providing the language and worldview for this new realm. Economists also developed ideas about liberal democracy from their understandings of the second economy, their theories about economic democracy, and their connections with dissidents. Hungarian economists defined the second economy as economic, which further supported their own reform proposals and their profession, and merged these ideas with those of liberal democracy, creating an economic basis for democratic action and thought.

In Hungary, there had always been informal economic activity outside the state sector. Party officials had presented the private sector as morally corrupt and illegal, especially in the 1950s, and this perception remained throughout the decades to varying degrees (Róna-Tas 1997). Private sector activities increased after 1957, when the new regime led by János Kádár eradicated forced agricultural deliveries and legalized private agricultural commerce, as well as the use of household plots for private gain. The Party also allowed individuals to lease state-owned shops (Berend 1990: 60, 278). In 1968, the NEM further expanded the private sector, especially in household farming, retail, and catering (ibid., 188-189).[57] Workers were also allowed to leave their jobs and work part-time. On January 1, 1982, the Party legalized most economic activity outside the state sector, allowed new types of private enterprise, and made private business ownership a right (Seleny 1991: 153). Between the 1950s

[57] Seleny (1991) discusses these reforms to private enterprise in detail (p. 155-156).

and 1982, both the official view and the legal standing of the private economic activity had changed significantly.

The 1982 law conceived of private economic activity as within the "second economy," a definite space and an *economic* space. While the previous sentence may appear tautological, it is important that private economic activity was considered economic, in contrast to its previous associations with criminality. Hetényi, who coordinated the preparation of the law, recognized the importance of this: "What I stressed in that document was that this is *economy*. I definitely excluded: cheating, speculation – that is, pure speculation . . . not linked to economic activity" (Seleny 1993: 137; italics in text). In 1978, the Party referred to private economic activity as "the utilization of leisure time," which included this connection with criminality (Seleny 1991: 159). With the end of the early 70s backlash, the Party leadership decided to discuss ways to improve the economy, which was seen as doing poorly. The expansion of the private sector was seen as the only way to avoid reform within the constraints of the living standards policy. Party officials had determined that the population would not accept decreases in consumption nor increases in labor time (Róna-Tas 1997: 137).[58] The Party leadership sought to pacify the population by legalizing already existing informal private economic activity, so that the Party could introduce price hikes and other austerity measures (Seleny 1991: 159). The idea of the "second economy" helped Party leaders to introduce reforms, but the

[58] They also avoided bank reform, a capital market, and transformation of the structure of production (i.e., ending industrial monopolies) (Seleny 1994: 462).

implementation of the second economy reform had social consequences far beyond the original intentions of political leaders.

István Gábor, a labor economist, was the first to coin the term "second economy" in Hungary.[59] He reified a particular space of private and semi-private business activity, calling it the "second economy." The official Party line on private business had been that it was a temporary, mostly criminal phenomena, which the Party sought to eradicate completely. In contrast, Gábor (1979) argued that private business was not only a permanent feature of socialism, but it was also a rational response to the "objective economic relations" of the first economy (p. 302).[60] The first economy could not satisfy these needs and thus required the second economy (ibid., 295, 300). In addition, employees already withheld their labor in the first economy and invested this time in the second economy, which, according to Gábor, was not criminal activity but rather an economically rational decision, since the second economy better compensated labor time. Gábor argued that, since private economic activity already exists, the Party should consciously use it to help satisfy consumer demand.

While he discussed the different principles of the two economies, Gábor implicitly argued that the second economy functioned better than the first and should thus spread to the rest of the economy. Gábor also did not explicitly state what these

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[59] According to Seleny (1993), K. S. Karol first coined the term in a 1971 article (p. 116).

[60] Gábor here uses the term "socialized economy," instead of "first economy."

principles were, but later scholars have considered the second economy a market economy based on profits, prices reflecting demand, and demand-driven production.[61] The first economy was understood as the socialist economy based on centralized planning, administratively set prices, and production driven by planning indicators.[62] To Gábor, the first economy could not meet the demand for consumer goods and experienced a general labor shortage. The first economy also exhibited inefficiency because its institutional structure made it economically rational for employees to withhold their labor. In the second economy, such behavior was irrational (Gábor 1979: 299). As a result, the second economy had better returns on labor because the second economy could use resources more profitably (ibid., 296, 303). Finally, the second economy avoided high administrative costs. These two spheres, however, came into conflict because of these different principles. To eradicate the distinction between the two spheres, Gábor argued for legalizing and integrating the second economy into the first economy, thus extending the second economy throughout the Hungarian economy:

> attention should be probably concentrated on such possibilities transcending *the basic features* of the model examined which would bring about changes in conditions of enterprise attitudes and of the behaviour of labourers . . . leading towards the "second economy." (ibid., 309; italics in text)

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[61] Hankiss (1990) explained the early 1980s view of the second economy as "a mixture of subsistence and market economy, and not a redistributive one" (p. 94).

[62] Hetényi remembered, "So we agreed that the first would be socialist and, in practice, the large firms" (Seleny 1993: 137). The secret report to the Politburo from the Economic Policy Division called the first economy "the socialist economy" (PIA 288/5/793/1980. "Report to the Politburo about the Possibilities for a Role and Development of the Secondary Economy," February 19, 1980).

This change would produce employees "rationally utilizing their labour power, which would thus dissolve the marked borders between the employee, consumer and citizen" (ibid.).[63] While he did not call for the end of the first economy, he advocated the idea of expanding the second economy.

Gábor's ideas appealed to Party leaders for several reasons. Reform-minded Party leaders sought a way to maintain political stability and introduce reforms. Gábor provided an acceptable way to pacify the population through the legalization of the private sphere, which both sanctioned informal work arrangements and utilized the production and services of the second economy to satisfy consumer needs. First, he recognized the second economy as a definite entity, rather than as amorphous: "the researchers wrote it down: this exists"[64] Second, he presented the second economy as non-criminal and socialist. Party leaders also saw the liberalization of private economic activity as the extension of preexisting forms and thus not "revolutionary" (Seleny 1993). Hetényi told Seleny that the reform was not "such a big step," but merely an extension of the NEM (ibid., 145). Third, Gábor also advocated the integration of the second economy into the first economy, which made the second economy appear controllable. Finally, he provided a solution that did not

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[63] Colleagues of Gábor further developed this idea of expanding the second economy to the first economy. For example, Galasi and Kertesi (1985) showed that the first and second economies created a "perverse" market because they divided the consumers, rather than competing for consumers. Economists sought to expand the second economy because of its productivity and efficiency. According to this view, the second economy should be freed from restrictions, so that it allow for rational activity and expand.

[64] Hetényi told this to Seleny (1993: 449).

require reforms of other institutions and thus allowed the Party to avoid major economic reform. By 1978, the Party leadership had officially decided to use the private sector to help the state sector (Fekete 1990).

Gábor's ideas were realized in law because of his connections with a dense network of reform economists and political leaders.[65] Gábor had begun his work on the second economy in 1977, while funded by the Party's Social Science Institute (Seleny 1993: 116). This institute and the Academy of Sciences held debates of his ideas in 1978. Around this time, the chair of Gábor's department in the Economics University, János Timár, had brought these ideas to the attention of István Hetényi, the deputy director of the National Planning Office. It is uncertain who precisely ordered the National Planning Office to investigate the possibility of liberalizing the private sphere, but István Hetényi organized this investigation and the formulation of the law.[66] Gábor's ideas traveled through an extensive network of academic researchers, government officials, and Party leaders (Seleny 1993: 117).[67]

Hetényi had long been connected with reform networks. He had been trained in economics immediately after the Second World War and before socialism. At that

[65] This discussion comes mainly from Seleny (1991, 1993, 1994) and Fekete (1990).

[66] Seleny (1993) discusses many possible individuals, including Hetényi himself, the Party's top economic expert, Ferenc Havasi, and an employee in the National Planning Office who worked with Gábor, István Kalázs (pp. 118, 127). Seleny determines that Hetényi played an essential role in this process.

[67] Hetényi himself told Seleny (1993): "the connection between researchers, the Ministry of Planning and the Party Central . . . was close. If somebody was working on something . . . we were aware of it. So though I don't remember the exact route, it was in the air" (p. 117).

time, he worked with Hungary's leading "bourgeois" economists.[68] For many decades, he had worked in the National Planning Office (NPO) in economic departments, including those that dealt with national income calculation and long-term planning, and became quite powerful as deputy director. He supported a financial perspective and economists within the NPO. The NEM further strengthened this perspective, by giving priority to economic issues and by increasing the number of economists in the NPO.[69] During the preparation of the NEM, he had directed one of the reform committees on new planning methods (Hetényi 1987: 203). He was convinced of the need for a new economic mechanism with a market to motivate economic actors. Through his powerful positions within the NPO, his economic perspective, and his advocacy of mechanism reform, Hetényi remained an important link in the reform network.

While Hetényi had originally worked at the NPO, the Ministry of Finance sponsored the 1982 law and represented the second economy from 1982 to 1989 (Hetényi 1987: 323; Seleny 1993: 276; Fekete 1990). In the implementation of the 1982 law, officials at the Ministry had to cope with many regulations and restrictions that prevented the development and spread of new entrepreneurial forms.[70] These officials lobbied for the removal or alteration of many regulations. For example, in

[68] This information about Hetényi comes from his OHA interview.

[69] When he left the NPO to direct the Ministry of Finance in 1980, he found the work there to be similar to that in the NPO (Hetényi 1987: 312).

[70] The information in this paragraph comes from Seleny (1993: 276-303).

1984, Hetényi as the Minister of Finance fought a law instituting a new separate tax on private businesses and sent the law to Constitutional Court. When this charge of unconstitutionality was rejected, Hetényi refused to release orders for implementation. After several years, the Minister of Finance did finally convince the Party leadership to rescind the tax. The Ministry of Finance and its research group, the Financial Research Institute, also lobbied for a comprehensive tax reform. The Ministry of Finance had successfully claimed to speak for the second economy and had many successes in lobbying for this sphere.

When representatives speak for their constituencies, they reinterpret the needs or demands of their constituencies within their networks of allies and ideas.[71] As discussed in the previous chapter, the Ministry of Finance was the center of the mechanism movement. Many individuals, particularly at the elite levels, supported reforms of the economic mechanism, in which a market-driven system would be created. Since their tasks were financial, Ministry officials saw the economy in a financial way, rather than in natural units or politically. They dealt with the budgets of companies and taxes, as well as with the financial incentives offered to companies. When the officials at the Ministry spoke for the interests and needs of the second economy, they understood these needs within their worldview of market mechanism and through financial language. This reinterpretation satisfied the interests of the Ministry because a financial mechanism would help the Ministry better control

[71] Similarly, Latour (1983, 1988) argues that scientists reinterpret the interests of other groups and inanimate objects in line with their own interests and networks.

economic actors, in contrast to the methods of the National Planning Office, and would help empower the Ministry in policy-making. The Ministry of Finance officials could utilize their reform networks and encourage a particularly financial perspective.

Hetényi mobilized economists to prepare what Fekete (1990) has called a "coup," in which Hetényi skirted bureaucratic pathways to move the second economy legislation quickly into law. In the Party-state, political leaders were greatly concerned about the foreign debt, economic decline, and potential falling living standards. This concern was heightened in the early 1980s when Poland nearly defaulted on its debts (Fekete 1990: 63, 69). As a result of their anxiety about the economic situation, Party leaders pushed for the rapid implementation of the second economy reform, which resulted in the coup-like nature of the reform process. From 1976, different groups within the Party-state restarted their discussion of major economic reform. For example, in Seleny (1993), a Ministry of Finance official remembered that by 1976 or 1977 "it became possible to speak of new ideas, though not yet publicly or in writing; but smaller circles were beginning to think and speak about new possibilities" (p. 126). In 1979, Hetényi formed a secret ad hoc committee of 13 individuals, including Gábor and his close colleagues.[72] After this committee produced its report, Hetényi then rewrote the report to ensure the successful implementation of the reform. In doing so, he removed the concerns and divergent

[72] According to Fekete (1990), this committee included István Gábor, Péter Galasi, Pál Juhász, Tamás Kolosi, Mrs. Gy. Kenéz, Géza Kovács, Gy. Róbert Manchin, and Gyula Varga (p. 64).

opinions of the participants. The Politburo quickly accepted this report, but did not make final decrees until August 1981, which went into effect January 1, 1982 (Fekete 1990: 65, 69).

It is important to recognize the extreme anxiety and concern that the idea of the legalization of the second economy evoked.[73] This anxiety has often been overlooked as merely self-interest in the status quo. Some people argued that the second economy reform would destroy socialism or at least the large socialist companies, which represented the majority of the economy. Party officials in factories found that people spent their time in second economy activities and no longer in volunteer work or leisure activities, which was "ultimately attacking our socialist values."[74] A professor of political economy at a public debate exclaimed, "but then – this means that socialism has to throw in the towel!" (Seleny 1993: 135). If the first economy was socialist, then what was the second economy?: "The difference is merely that the small enterprise is at least twice as productive and pays them better. Could that be why it is not socialist?"[75] Scholars disregarded these concerns at the time. As Róna-Tas (1995) has discussed, East European reform-oriented scholars were often involved in the economic policy process and thus had an interest in making market reforms appear less threatening than they actually were and

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[73] Fekete (1990) also shows how the coup-like nature of the second economy reform backfired because of this anxiety and thus required a huge campaign to convince the population of the need of private sector reform.

[74] This quotation comes from Berend (1990: 286).

[75] This quotation comes from Berend (1990: 287).

in making hard-liners who opposed market reforms appear selfishly interested in the status quo (pp. 78-79). In recent years, scholars have argued that the second economy reforms, particularly the 1982 law, undermined the authority of the Party and led to the changes in 1989 (Róna-Tas 1997; Seleny 1993). Many individuals rightly considered the political and ideological consequences of the 1982 reform.

Gábor and his colleagues, however, saw the need to go beyond merely liberalizing and extending the second economy. Reform economists connected second economy reform with mechanism reform, which was already linked to arguments about the world economy. Gábor (1979) argued that the legalization of the second economy would not solve all of Hungary's problems:

> The task is very difficult, since what we have to face is not a simple *coexistence* of economic sectors, but that these are functioning on different "principles" and are at the same time interrelated through thousands of threads, furthermore, that they are *full of conflict*. (p. 302; italics in text)

According to Gábor, this conflict would only dissipate with the full integration of the first and second economies, which would spread the market principles of the second economy throughout the economy. While Gábor did not link the second economy to mechanism reform in his 1979 article, other economists did make this link. Within the context of arguing for the renewal of the NEM, Antal (1982), Bauer (1984), and Máriás et al. (1981) advocated a larger number of economic units to encourage competition, but also a radical rearrangement of the mechanism to end the dependence of companies on the state and thus create a real self-regulating market.

Révész (1979) argued that the NEM and its turn toward intensive development required small enterprises (pp. 47, 60). Varga (1978) argued that the new epoch in the world economy required small enterprises which could adapt quickly to changes (p. 229). Economists linked together the expansion of the second economy, mechanism reforms, and the new era in the world economy, further extending the net of reform ideas.

Participants in this "coup" to organize and implement the second economy law personally benefited from their participation:

> officials were promoted, some of them became heads of sections and even deputy heads of departments. Some were invited by "more distinguished" authorities, others were asked to leave the government administration and occupy new responsible jobs in the party apparatus. (Fekete 1990: 69)

During his work, Hetényi became a government minister, a good career move from his position as deputy director at the NPO. In general, the Ministry of Finance gained more control and influence over areas of the economy, especially the second economy. Those in the Ministry's research arm, the Financial Research Institute, gained increased responsibilities in conducting analysis of the second economy. As with previous economic reforms, economists benefited from the 1982 reform.

While Party-state officials used Gábor's ideas for their own ends, the economic nature of these ideas had important consequences for society and for economists more specifically. The second economy was understood as an economic entity in market terms, as opposed to a political, criminal, or ideological entity. The acceptance of the second economy reflected a significant change in the public's and the Party's thinking about the economy and socialism. Seleny (1994) has shown that those directing the reform had reinterpreted concepts, such as unemployment, socialism, capitalism, and exploitation, in order to facilitate the passage of the law. Before the reform, the official Party line presented private economic activity as shady and possibly downright criminal. Hetényi told Seleny that the change away from this thinking was dramatic:

> The '82 reform had the effect of changing peoples' thinking. The whole idea of entrepreneurship, of working in non-state organizations, was a major change, and it certainly didn't happen in Czechoslovakia, Poland or the USSR . . .it was written down that the large socialist firms could not solve the problems of the economy; could not supply the population's needs . . . eventually all private work-partnerships became fully a part of the collective consciousness" (Seleny 1993: 155)

From Gábor's ideas, slacking off at one's job in the first economy became "economically rational." These employees were not lazy or personally at fault, but rather the system had created this situation and its ineffective logic. The official acceptance of the second economy in the 1982 law sanctioned this new vision of the economy and economic actors. Reform economists also integrated this term into their knowledge about the economic mechanism and within their network of reform proposals. The success of the second economy ideas helped reform economists to continue to establish themselves within the Party-state and promote their market economic ideas. Reform economists also argued for the continual spread of the second economy. Finally, reform economists linked together ideas about the world economy and the second economy through their focus on markets, making a powerful argument for comprehensive market reform.

Democracy and the Market

By 1989, the democratic opposition and the Party called for both political democracy and a market economy. Reform economists had previously criticized political intervention in the economy and envisioned the economy as separate from politics. During the 1980s, however, they publicly advocated political democracy as a necessary condition for a market economy. The link between liberal political democracy and the market may have arisen due to various logical philosophical connections or experiences in the West. Reform economists may have always been closeted democrats. Economists themselves argued that they had reached the political limits of their economic ideas (Kovács 1991: 58). This argument makes sense because the Party continually blocked both privatization and political pluralization, which, according to economists, markets required. Yet, these arguments do not explain why this switch did not happen sooner, for example in 1968 or 1977, or later. These arguments also ignore the political nature of economics as an oppositional discourse and basis for political authority throughout Hungarian socialism. This switch can be explained only by recognizing the historically specific ways that Hungarian economists connected these two entities. These historically specific understandings had important consequences.

I examine three ways in which economists connected political democracy and the market. First, the democratic opposition had allied with reform economists. In part as a result of this alliance, the democratic opposition envisioned the emerging civil society as a place that included the second economy and its market interactions. Therefore, political freedom and democracy were closely associated with a free market economy. Second, economists themselves had long described the economy in democratic terms and advocated economic democracy. Therefore, their ideas about political democracy were infused with their ideas about the economy. Finally, in economic policy-making, the Kádárist system contained a form of pseudo-democracy. Many groups throughout society discussed economic problems and solutions. Among these groups, economists were the most powerful representatives of the economy within the polity of the Party because they had successfully connected their expertise and reform. Further market and democratic reform empowered economists in the polity. With the changes of 1989, economists became increasingly powerful, and an expert democracy appeared as a possibility. These historically specific understandings of the connection between democracy and the market had serious consequences on society and on economists themselves because the unproblematic fusion of political and economic democracy presented citizens as naturally following economic rationality when freed from the bounds of irrational socialist politics. These tensions did not fully emerge until after 1989.

Compared with Poland, the Hungarian democratic opposition was small and lacked a connection with the population.[76] This opposition first emerged in the mid-1960s as the Budapest school, a circle of György Lukács students who sought to create a Marxist renaissance.[77] At the same time, sociologists István Kemény and András Hegedüs had moved away from Marxism and made critical studies of social problems. By the mid-1970s, the opposition had determined that Marxism could not be reformed (Csizmadia 1995: 100). In response to the Helsinki Accords signed in 1975, the opposition in Hungary, as well as Poland and Czechoslovakia, replaced Marxist rhetoric with that of human rights and called for democracy.[78] With the successes of Polish Solidarity in 1979 and 1980, leaders of the Hungarian democratic opposition sought to implement the ideas and tactics of Solidarity in Hungary, but the lack of a workers' opposition meant that new tactics had to be used. In spite of the lack of an alliance with workers, the democratic opposition leaders had begun to successfully integrate their many different circles by 1979.

To deal with the absence of a workers' movement, the leaders of the Hungarian democratic opposition formed an alliance with researchers from social science institutes and young economists working in the Party-state apparatus. Reform economists thus formed an important group within the democratic opposition. They

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[76] Much of this discussion comes from Csizmadia (1995) and Szalai (1994, 1996).

[77] In the universities, there was also an important Maoist movement (Csizmadia 1995: 31).

[78] Stokes (1996) explains the Helsinki Accords within the historical context of Eastern Europe and provides important documents related to the Accords (pp. 156-166).

allied with the democratic opposition because they hoped to use this group to create an ideology to support their own programs for market reforms (Szalai 1996: 10). The democratic opposition and social science researchers allied with Party-state economists in order to make their claims for political reforms more powerful and effective, but also because they had few connections with the rest of the population. The increasing power and influence of economists within the Party-state helped their allies (ibid., 17-18). This alliance reached its peak at the 1985 Monor conference, which brought together the many different circles of the opposition. In the next two years after this meeting, the counterelite became divided, particularly with the formations of political parties (Szalai 1994: 10). Out of strategic, as well as personal, interests the democratic opposition and reform economists established ties.

The many connections between the democratic opposition, reform economists, and the Party's reform politicians are too numerous to discuss completely. Only a few important links can be discussed here.[79] Two economists, Tamás Bauer and Mihály Laki, were core members of the opposition, actively participating in oppositional discussion groups and debates.[80] As a student, Bauer had been a leader of the Maoist movement within the Economics University and then worked in the Economic Science Institute (ESI), along with other critical economists. After 1974, Nyers became the director of the ESI, thus creating one of many links

[79] Csizmadia (1995) discusses these links in detail.

[80] They participated in Peter Donáth and Zsuzsa Gáspár's Tuesday discussion circle, for instance (Csizmadia 1995: 168).

between the Party reformers, reform economists, and the democratic opposition. In the early 60s, Laki conducted research with István Kemény, a critical sociologist, and attended his apartment seminars (Csizmadia 1995: 168). Laki then worked at the Business and Marketing Research Institute, which included many oppositional economists, including Márton Tardos, András Nagy, János Kornai, Kamilla Lányi, and Magda Soós (ibid., 167). The Ministry of Finance's Financial Research Institute (FRI) employed many oppositional economists. As László Lengyel, who worked at the FRI, remembers, "the leadership knew that the opposition 'had managed to get into the institute,' that the institute employees had professionally and politically infiltrated the Ministry of Finance, namely we had mutually 'contaminated each other' with our ideas" (1997: 1). Through their connections, these young economists collected official documents for samizdat publication, regularly met to discuss this samizdat, and had a plethora of personal connections with critical intellectuals (Csizmadia 1995: 169). Lengyel (1997) remembered:

> I considered it natural that I consulted with János Kis [one of the central leaders of the democratic opposition], I gave him all documents . . . The police must have been surprised that someone could meet with the [Party's] Central Committee secretary in the afternoon and in the evening with the leader of the opposition. (pp. 3-4)

Others in the FRI also did the same. Erzsébet Szalai was an important connection with the opposition, and she held debates with oppositional leaders in her apartment (Csizmadia 1995: 169). The World Economic Research Institute, headed by József Bognár, sought to protect its oppositional members, but, when one of them, Bálint

Magyar, was removed from his position, Szalai mobilized a solidarity action among young economists in support of him. Magyar than went to work with an important opposition sociologist, Elemer Hankiss. Finally, Ferenc Donáth, an economic advisor to Imre Nagy before the Revolution, mediated between a wide range of groups, including older intellectuals who had allied with Nagy, the Budapest School, reform economists, popular writers, and the Party's reformers.[81] This short discussion shows the close connections between reform economists, the democratic opposition, and the Party's reformers.

In the 1970s and 1980s, Eastern European oppositional movements perceived Party-states as "totalitarian." According to this view, each totalitarian state had atomized society by removing its autonomous institutions, which left isolated individuals and families under the direct repression of the state. To combat this alienation and repression, opposition leaders sought to establish and expand civil society through independent publications (samizdat), independent university seminars (flying universities and apartment seminars), and independent charity associations. The expansion of civil society became the focus of the democratic opposition. Seen as the negation of the state, civil society was understood as containing horizontal relationships, influence from below, an open and free market, and decentralized and democratic cooperation of autonomous economic and social actors (Hankiss 1990: 107). This interpretation of the state and civil society neglected

[81] Donáth also met with Imre Pozsgay to discuss the opposition (Csizmadia 1995).

the existence of many informal networks that crossed between the state and society. The experiences of these networks by the democratic opposition itself would seem to disprove the totalitarian view. In addition, this view ignored the role of the semi-autonomous intermediary institutions.[82] The term "civil society" was both an analytic concept and a means to attack the Party-state by labeling it totalitarian and oppressive (Seligman 1992; Hahn and Dunn 1996: 2).

In contrast to other East European oppositional groups, the Hungarian democratic opposition included the second economy within civil society, thus fusing ideas about political freedom and market freedom, as well as political and economic democracy. As the negation of the first (socialist) economy, the second economy was an integral part of civil society: "It was not planned and organized by the state; it was not vertically articulated; it was not centralized; it was not permeated by party control and ideology; it was a mixture of subsistence and market economy, and not a redistributive one" (Hankiss 1990: 94).[83] Kemény (1990) divided Hungarian society into 1) a decentralized "deep society" that is heterogeneous and contains real economic life and 2) an official society "with homogenizing technology and

[82] Buchowski (1996) and Hahn (1990) present an alternative understanding of civil society. Hahn (1990) argues that associations created by the state with public funds acted as intermediate levels of association between individuals and the state. These included, among many others, dance houses, work partnerships in the second economy, and literary journals. These intermediate associations and their importance as centers for discussion and change have been disregarded because of the Western opposition between the state and society. Hahn (1990, 1996) has shown that there were many non-economic areas that acted relatively autonomously.

[83] Szelényi (1989) has argued that the second economy was a path not only to socialist embourgeoisment, but also to a classical form of civil society (p. 30).

capability to wield power in politics, management and ideology" (p. 58).[84] The second economy exists within this decentralized deep society and represents the "new economy by the people," which is smothered by the homogeneous official society (ibid., 63). The fusion of political and economic ideas of freedom in opposition to the totalitarian state arose at least in part because of the close connections between reform economists and the democratic opposition. Through their alliances, these groups integrated each others' ideas.[85] Members of the democratic opposition who had lost or left their jobs also felt the reality of the connection between the second economy and civil society because they relied on the second economy for their livelihood (Szalai 1994: 11). In addition, working within the second economy provided these dissidents freedom to do their political and scholarly work. Civil society, therefore, acquired an economic content as a realm based on the freedom of the market containing entrepreneurs, profits, free prices, and consumer demand, in contrast to the dependence and totalitarian quality of the plan.

The democratic opposition accepted the reform economists' dismal evaluation of the economy and their call for market reforms. The democratic opposition discussed economic issues on many occasions. János Kis, a leader of the opposition, began one of the earliest discussions within the democratic opposition

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[84] Kemeny's article appears in Maria Los' edited book. While this book was published in 1990, this article was written before the changes of 1989.

[85] Szalai (1994) agrees that the democratic opposition adopted the values of their alliance partners (p. 6).

about the economic premises of Marxism.[86] In the mid-70s, the central forum of oppositional debate were the large lecture series and discussions in the apartment of János Kenedi (Csizmadia 1995: 172). Within this forum, János Kis organized a seminar series on Keynes' work The General Theory (ibid., 173). There were numerous other economic discussions, including those of Tobin's theory of public finance, Friedman's theory of money, the capital debates of the Cambridge School, and the Hungarian reform literature (ibid.). Finally, in 1983, the opposition discussed the further development of economic reform (ibid., 271). Most of the democratic opposition's economic proposals came from reform economists, and there was a consensus within the opposition that the economy was in crisis and required reform to avoid collapse (ibid., 228, 237, 253).[87]

Economists developed their ideas about democracy within the context of their discipline, thus imbuing their understanding of political democracy with their ideas about the economy. Marxism has long had an understanding of "economic democracy."[88] As a result of the Kádárist alliance policy, ideas about political

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[86] This discussion was about a book by János Kis, György Bence, and György Márkus called Hogyan lehetséges kritikai gazdaságtan? , which became know as Überhaupt. See Csizmadia (1995) on Kis' role (p. 316).

[87] Csizmadia (1995) supports this claim: "For the democratic opposition this goal was a priority, that economic collapse must be avoided, in essence every participant in the discussion agreed" (p. 228). In 1982, Beszélő, the main samizdat journal, published a political program, which assumed that there was an economic crisis and the need for economic reform to avoid economic collapse (ibid., 237).

[88] In socialism, employees were represented in their workplaces through Party secretaries, who brought employees' concerns to higher political leaders and asked for favors on the part of their constituency. Through such a system, individuals' economic rights technically brought a form of political rights, but these were not substantive.

economy could only be expressed in terms of the economy. Democracy could not occur in the polity, but rather only in the economy. In the 1960s, when talking about the NEM, economists spoke about increasing the freedom (szabadság) of companies, about prices reflecting consumer choice, and about the harmonizing of interests through the market mechanism, which seemed similar in form to political democratic terms. By the early 80s, as Szalai (1994) remembers, reform economists thought "the basic conditions of the democratizing process were the freeing of market relations and the pulling back of state intervention," which meant increasing enterprise independence and restricting the role of the state (p. 225). Economic democracy was thus about the freeing of the economy from the state and making workers into independent entrepreneurs. Antal (1979) contrasted the hierarchical dependence of planning with the non-hierarchical democratic relationships of the market. Antal (1982) and Bauer (1984) called for the clashing of economic actors' interests in a market completely separate from the state. Liska even conducted experiments with his model of entrepreneurial socialism, in which "democratic and free enterprise" would occur in a market entirely severed from the state.[89] To Nyers (1986), "economic democracy" required the abolition of direct centralized planning control and the installation of a regulated market. In sum, democracy meant the freeing of economic actors from the state and allowing them to compete in a market.

[89] Berend (1990) discusses Liska's work at length (pp. 249-253).

The economy was a realm for public discussion and a source of alternative political authority.[90] The repression of the 1956 Revolution in Hungary demonstrated the futility of political protest, and the Kádárist alliance policy encouraged people to funnel political and personal concerns into individual economic activity. In contrast to the closed sphere of politics, the Party incorporated many groups into discussions of economic issues.[91] During the NEM preparation, for example, an enormous number of meetings and consultations were held.[92] Economic issues were a way to make broader political claims. Economists had successfully made claims to represent the economy, markets, enterprises, and other economic actors to the political leadership. Furthermore, with the legalization of the second economy, a new constituency emerged, which economists at the Ministry of Finance represented. Economists gained political authority from their claims to representing the economy and participated in a limited polity around economic issues.

The democratic opposition and reform economists understood the connection between democracy and the market in these historically specific ways. Both groups underplayed the contradictions between the values of market reforms and those of democratic opposition, which allowed these two groups to work together and mutually strengthen each other's power positions. Just a year before the elections of

[90] For a discussion of anti-politics in Hungary at this time, see Konrád (1984).

[91] Csizmadia (1995) agrees that one could speak openly about economy (p. 191).

[92] According to Judt (1988), at least in the 50s and 60s, "critical discussion couched in economic proposals was the nearest thing to a licensed opposition in the crucial period 1956-1966" (p. 200).

spring 1990, ACTA conducted a survey of elite economists, asking them their definition of a "socialist market economy" and whether this type of economy was viable.[93] All the economists agreed on the need for a market economy, which was not socialist, and for democracy, which would allow the market economy to function adequately. Interestingly, they did not present concerns about the possibility that democracy would threatened their reform project. Economists saw democracy as breaking party-state control over the economy, but they did not seem to realize that they would have to share this space with others who might have different goals and values. Both the democracy opposition and reform economists shared the common goal of removal or at least the disempowerment of the totalitarian state, which allowed them to downplay the possible tensions between political democracy and the market and also allowed them to mutually benefit from each others' networks and ideas.

In 1986, economists produced a report called "Change and Reform," which became the topic of discussion throughout the Party-state.[94] The authors surprisingly demanded political democracy, a new restricted role for the Party, and privatization through foreign investment. The report covers many of the issues included in this

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[93] The responses of the economists, as well as those of scholars outside economics, are in ACTA Oeconomica 40 (1989): 179-283.

[94] In 1985, the Party reform leader Imre Pozsgay agreed to a suggestion from a reform economist to commission a report on the nature of the economy led by economists at the Ministry of Finance's Financial Research Institute. László Lengyel made this suggestion to Pozsgay (Lengyel 1997). "Change and Reform" can be found in English in ACTA 1987 and in Hungarian as "Fordulat és Reform" in Medvetanc 1987.

chapter because the report reflects the alliance between economists and the democratic opposition and represents the economists' understanding of democracy, as well as their arguments about the world economy and the second economy.

In the report, the authors maintain that the economy is in "very serious trouble," which requires a comprehensive, radical change in economic policy and the system of economic management: this is "the only solution" (Antal et al. 1987: 187-188). The world economy requires both structural adjustment in the Hungarian economy and reform of the mechanism (ibid., 188). This reform would create the necessary conditions for "genuine market relations," which include the expansion of private business and a new financial system (ibid., 197, 200, 205). While expanding the market, the role of the Party-state in the economy must almost completely contract. The main task of the Party-state is "the *constant and conscious elimination of the constraints* on the market" (ibid., 211; italics in the text), which essentially means removing itself from the market.[95] The authors brought together mechanism reform, the world market, the second economy, structural adjustment, and complete separation of the Party-state from the economy.

The authors also discussed democracy and the participation of economists in the polity. The authors mention the need for political democracy (Antal et al. 1987: 200), but they instead focus on economic democracy. They speak about "the freedom

[95] The report specifically calls for "the elimination of interference by political and administrative organizations in the operation of the self-regulating market," so as to have genuine market relations (Antal et al. 1987: 200).

of citizens to choose between market and non-market institutions," "economic constitutionality" as the acknowledgement and guarantee of the rights of economic actors, and the "freedom" to choose a bank (ibid., 200, 210, 208). They discuss the possibility of the public controlling the market economy and central actions "by the means of publicity, participation, plurality in representation of interests and democracy," but they do not explain whether this control would be conducted by the public as political actors within a liberal democracy or as market actors within an economic democracy (ibid., 210). At the same time, the authors argue that the market or the financial system should control economic actors. For example, according to the text, the financial system should regulate aggregate demand and the flow of resources (ibid., 201). The possible contradiction between democratic control of the market and expert control of the market is not mentioned. The authors do, however, suggest that economists should play a significant role in democracy as experts within an "economic super-ministry reform committee" and as advisors to Parliament members (ibid., 212). The historical alliance between the democratic opposition and reform economists, as well as economists' understanding of economic democracy, helped them to see the need for both political democracy and a market economy, but this report shows the hidden tensions between democracy, the market, and economists as experts.

Economists Take Control: 1988 to 1990

As I have argued throughout this dissertation, market-oriented reforms have always improved the professional environment of Hungarian economists. As a result of reforms, they have received political positions, professional institutions, prestige, travel privileges, autonomy, and other benefits. From the vantage point of 1988 and 1989, it seemed as if Hungarian economists had triumphed in promoting themselves and their reforms.

The Communist Party's Last Economic Program

At the end of 1988, the Party's leading economic expert, Miklós Németh declared, "The market economy is the only way to avoid a social catastrophe or a long, slow death" (1988; quoted by McDonald 1992). Even before this declaration, the Party, through an ad hoc committee called the Economic Panel, had officially agreed with every major point of the "Change and Reform" text (Economic Panel 1987). The existence of the Economic Panel exemplifies the gains that economists had made. This panel included most of the economists discussed in this chapter: Iván T. Berend, who taught at the Economics University and the Rajk Collegium, József Bognár, who headed the Council on the World Economy, István Hagelmayer, who directed the Finance Research Institute, István Hetényi, who supervised the organization of the second economy, Miklós Németh, who was a Party reform economist, Rezső Nyers, who was a long-time Party reform economist, Márton

Tardos, who was an important connection with the democratic opposition, and many others. With such a panel, it is not surprising that the participants would agree with the "Change and Reform" report.

The Party leadership completely agreed on the need for a market economy. In May 1988, the Party removed János Kádár from power, which gave control of the Party to leaders who supported market reforms.[96] The leadership divided into those allied with Károly Grósz, the prime minister, and those allied with Imre Pozsgay. While both groups were reformers, Károly Grósz and others became "hard-liners," who supported economic reform, but did not support political reform. Imre Pozsgay, Miklós Németh, and Nyers were placed on the Politburo and represented the new reform position: "Grósz saw economic reform as the solution to the political problem; Pozsgay and Nyers saw political reform as the precondition to the solution of the economic problems" (Stokes 1993: 91). Within the Party, there was agreement on the need to build a market economy, but disagreement over the need for multiparty democracy and the end of the Communist Party's monopoly. By November, the Central Committee had decided to build a market economy, allow foreign investment, institute privatization, and begin political reform (Magyar Szocialista 1994: 489).

[96] Much of the information in this paragraph comes from Schiemann (1999).

Several large expert committees convened in the summer of 1988 to make a formal plan for economic reform (Berend 1990: 293; Berend 1989).[97] Economists directed and filled these committees. As in previous reform proposals, the economy was seen as in crisis. The solution to this crisis was structural change to cope with the world economy. This structural change included the creation of a market economy, privatization, and other reforms, which formed the web of reform economic ideas. The authors also only briefly mention the need for democracy.

This document is remarkable because of the authors' extreme confidence that their promises will actually be realized.[98] The authors declare the need to remove all obstacles to real enterprising activity, which requires the end of the monolithic power structure and "administrative-bureaucratic brakes" (Berend 1989: 13-14, 20). For these economists, the main obstacle to economic growth is the bureaucratic, totalitarian state, which when dismantled would free the naturally enterprising citizenry. The market appears as a place where free entrepreneurs compete on an equal playing field, in opposition to the hierarchy and oppression of the planned socialist economy. In a similarly utopian way, the authors declare a victory for economic rationality. The authors argue that this reform would differ from all previous reforms because it was not "weakened by compromises" or distorted by "contradictions" (ibid., 11). For the first time, the reform would "try to eradicate the

[97] Berend (1989) is the text of this proposal.

[98] This document bolsters McDonald's argument (1992) that Hungarian economists make utopian knowledge and claims during times of political disjuncture.

determining reasons for deep-seated reoccurring equilibrium disturbances" (ibid., 12). From this perspective, economic rationality had overcome the compromises and contradictions of political irrationality of the Party. Considering the political situation at this time, this claim may have appeared possible. Elections did not occur until 1990, and the Party had given economists de facto control over the planning of the new economic system. As a result, economists did not have to make compromises. However, the implementation of multi-party democracy later would complicate this expert control.

The Political Parties and the Market

By 1989, there was a deep consensus in favor of a free market economy and private property, as well as a broad ideological rejection of the socialist model. As a result, all political contenders had to advocate a market economy to be credible (Seleny 1993: 344).[99] The political parties had very similar economic and political programs.[100] In economic issues, they agreed on reducing the role of the state in the economy, creating a market economy, implementing privatization, and encouraging

[99] Those parties that were neither pro-market nor credible contenders were the Hungarian Socialist Workers Party (MSZMP) and the Hungarian People's Party (MNP).

[100] Ágh and Kurtán (1995) find that the parties had similar economic and political programs because the parties had just formed and because the first elections in 1990 were "a kind of plebiscite" against the former system and thus not truly competitive multiparty elections (p. 13). The party programs became more varied in the second elections in 1994. On the other hand, Laki (1991) argues that the programs were sufficiently different.

foreign direct investment.[101] Debate in this area focused on the pace of reforms, rather than on whether they should occur. Political issues, however, were the main topics of discussion, especially before and during the negotiations of the National Round Table. The opposition parties agreed to put economic issues on the agenda as a compromise with the Communist Party, but they blocked efforts to discuss these issues (Schiemann 1999: 228). As Erzsébet Szalai, one of the participants, describes, little was accomplished in the area of economic issues.[102] The absolute necessity of a market economy, a diminished role for the state, privatization, and foreign direct investment was obvious to political elites.

The Role for Economists

The wide-spread acceptance of a market economy promised economists a significant and expanding role in the new polity. Reform economists within the Party had become leaders of the country. Németh became prime minister in 1988. Later, the Central Committee replaced the Politburo with a four-person collegial presidency, which included Imre Pozsgay, Károly Grósz, Németh, and Nyers. As a result, two reform economists, Németh and Nyers, with strong connections to the economics profession and a commitment to mechanism reform became leaders of the Party. All four leaders supported market reforms, while they differed over the need

[101] See the programs of the parties (Fidesz 1989; FKP 1990; KDNP 1990; MDF 1989; MSZDP 1989; MSZP 1990; SZDSZ 1989).

[102] This information on Szalai (1994) comes from Schiemann (1999: 228).

for political reforms. The placement of four pro-market leaders meant the certainty of market reforms, which had always increased the influence and professional rewards of economists.

In the immediate period, plans for market reform did increase the influence of economists. Nyers and Németh substantially expanded the use of economists within the Party-state. They formed numerous ad hoc committees to make proposals for reform, including the Economic Directive Consultative Commission and the Economic Reform Committee (ERC).[103] The ERC made the reform program that was implemented in 1989 and lasted until 1992. The Party's Economics Cooperative was revitalized. They also created two new advisory boards filled with economists for the Council of Ministers (McDonald 1992: 250). Individual reform economists advised the Németh government (ibid.). There were also plans for future institutions run by economists. The "Change and Reform" report had called for the use of independent advisors by Parliament members (Antal et al. 1987: 212). Outside advisors, such as the Blue Ribbon Commission, suggested the formation of a council of economic advisors, which would advise the state and carry out the transition to a market economy without seeking broad public support for each reform measure (McDonald 1992: 230). It seemed possible that economists might gain a long-term monopoly over economic advising within the state.

[103] McDonald (1992) discusses these committees (p. 211).

Reform economists headed both the Party and the state, bringing with them their economic mechanism worldview and their connections to their profession. These two leaders used many economists as advisors and allowed them to make proposals for the creation of a market economy. The pro-market stance of the entire leadership of the Party improved the likelihood of these reforms. With the continued implementation of market reforms, economists played an increasingly influential role in the Party-state. Political democracy might further expand this role by removing the Party leadership, which would allow economists to control economic policy completely because they had the necessary expertise. Economic technocracy would thus be born.

Conclusion

In 1989, the Party implemented its program to create a market economy. At the same time, the Party negotiated the end of the multi-party system. One could see the decision in 1989 to have a market economy as a great victory of the Hungarian economics profession. For decades, Hungarian economists had called for a decentralized economy with markets. The NEM had brought economists an expansive and qualitatively new role as the "new generalists." In the midst of the backlash against the NEM reforms, economists argued that fundamental changes in the world economy required a wide-range of reforms that economists had long advocated. They placed world economic events within their economic worldview and net of reform economic ideas. At the same time, they recreated the understanding of private business with the concept of the "second economy." The second economy lost its official connection with criminality and became a world of rational economic actors interacting in markets with which economists had successfully claimed to have privileged relationship. Economists brought together the markets of the external world economy with the internal second economy in arguments for mechanism reform, which had benefited the economics profession.

Markets became linked to liberal democracy through three main avenues. Reform economists and the democratic opposition were connected through a myriad of individuals, who mutually influenced each other's ideas. The democratic opposition accepted the idea that the second economy with its markets, profit-oriented entrepreneurs, and consumer demand was an essential part of civil society and thus liberal democracy. On the other hand, economists more generally had discussed democracy in economic terms and saw economic democracy as merely the freedom of economic actors from the state. Finally, the economy itself had become a space for politics and debate, as well as a source of political authority. Arising from the experience of 1956 and the NEM reform of 1968, the Party encouraged Hungarians to strive for personal material gain within the economy, where they could gain a level of individual freedom. Economists became the primary representatives of the economy, markets, the second economy, and different economic actors within the restricted polity. In these complex ways, markets and democracy became linked.

Economists argued for democracy and markets, but this democracy was in many ways a democracy of experts.[104] The events of 1989 presented the possibility for creating an even larger role for economists in politics and society because the Party's intervention in the economy had ended. By removing the Party from economic decision-making, economists could increase their own control over the economy. They could create a more rational economy free from the irrationality and injustice of politics. They could also finally avoid the intervention of the Party in their own profession. With the proper economic environment and the end of the Party, economists would gain true professional autonomy and gain control of the economy as experts, abandoning their role as the NEM's necessary mediators between the Party and economic actors.

[104] This situation has also arisen many other contexts, such as at the beginning of this century with American progressivism, in which experts presented themselves as a means to removing the incalculable passion of politics.

Chapter VI
Conclusion: Unintended Consequences of Economic Ideas, 1990-1995

By explaining the rise of economic liberalization and market capitalism as economic necessities, scholars have disregarded the role of social actors in directing the course of social change. Economists interpreted economic events in light of their own previous commitments to market reforms, their network of allies, and their vision of the economy as requiring a market mechanism to function effectively. Throughout socialism, economists benefited from market reforms in the form of resources, institutions, employment opportunities, and political influence. By 1989, it appeared that the emergence of a market economy might allow economists to become leaders in an expert democracy. This result would have confirmed the prophesies of the new class theorists that a technocratic intelligentsia would take power from Party leaders and bureaucrats (Goulder 1981; Konrád and Szelényi 1979). The victory of the market, however, paradoxically did not bring with it the victory of the Hungarian economics profession. The transformation to a capitalist economy and liberal democracy has in fact had unintended negative consequences for the economics profession.

Economists' Professional Successes until 1989

Before delving into the post-1989 period, we should first recognize the enormous transformation of Hungarian economics since the Second World War. In the second chapter, I examined the formation of a Stalinist economics profession in

Hungary from 1945 to 1953. Most scholars have claimed that economics disappeared during this period. While economic science was fundamentally altered, it did not cease to exist. Economists from both the pre-socialist and the socialist periods were in great demand because the Soviet system was difficult to implement theoretically and technically. In addition, powerful economists in the socialist era had been trained by bourgeois economists, thus providing a link between the two professions. The centrality of economic concerns in the immediate postwar period, however, did not bring the empowerment of the economics profession. Rather, economists as a group were weakened because they had become divided. Economists worked in very different settings, in which they experienced first-hand the difficulties of implementing the Soviet system. They also lacked unifying institutions beyond the new Economics University and a common professional model. The establishment of a Soviet socialist system in Hungary weakened the Hungarian economics profession, but also provided some economists with professional rewards and political influence.

After the death of Stalin in 1953, reform economics, a new form of economic knowledge and professional life, emerged, which I discussed in chapter three. A political struggle between Imre Nagy and Mátyás Rákosi resulted in the professionalization of economics, as McDonald (1992) has also shown. Rákosi's political challenger, Imre Nagy, formed a broad network of allies to support his political claims. Economists joined this network and gained a wide-range of resources, unifying institutions, and an alternative, anti-Stalinist hegemonic worldview. In contrast to McDonald, I have shown how reform economics emerged not as the natural evolution of economic ideas toward a market paradigm, but through the professionalization of economics, which was defined by competition for professional authority with experts allied with Rákosi. In opposition to controllers, political economists, and Rákosi's elite advisors, reform economists presented the economy as a malfunctioning mechanism, which required the replacement of Rákosi's political or administrative methods with a market mechanism in order to function properly. From Rákosi's elite advisors, reform economists also reappropriated empirical methods to further their own claims to expertise, presenting themselves as those who did genuine empirical work. Their mechanism theory provided a powerful way to promote reform and economic science.

By the 1960s, economists had successfully convinced powerful groups that the economy was a malfunctioning mechanism in need of market reform. In the fourth chapter, I examined how economists and political leaders worked together to implement the New Economic Mechanism (NEM) in 1968. Why did Party officials believe that markets could solve their economic and political problems and that markets should in fact be implemented to solve them? In an effort to avoid another revolution like that in 1956, Party officials instigated a new social compromise policy to reduce Party-state intervention in private life, depoliticize the population, and economize society, which meant encouraging individuals to shift their political energies to profit-oriented activities. At the same time, economists took refuge in mathematical economics to escape Party retaliation against activities associated with the 1956 Revolution. This escape brought economists into contact with modern econometrics and neoclassical theory. At this time, econometrics was decidedly Americanized because of its recent development funded by U.S. government agencies and its institutionalization in the powerful postwar institutions of the American economics profession. Hungarian economists used econometrics to provide a means to create a functioning market mechanism and thus the means to make an economized society possible. Furthermore, econometrics was a blueprint for developing the necessary Western capitalist conditions for this mechanism. Through this new knowledge and professional expertise, economists helped to mobilize for the NEM and for many later market reforms.

By 1988, Party leaders accepted that socialism had failed and that a market economy was necessary. The new political parties also agreed that a market economy was necessary. The promotion of the market economy in Hungary was successful in large part because of the impact of the NEM and the further efforts of economists. The NEM officially legitimized economists' knowledge and expertise, spread their ideas throughout society, expanded the economic society based on market principles, and sanctioned the mediating role of economists within the Party-state as the new generalists. Furthermore, as a new mixture of plan and market, the NEM initiated an unending reform process, in which economists continually sought to provide the correct environment for the market mechanism. While these processes were delayed by a backlash against the NEM, economists soon renewed discussion of mechanism reform and, at the same time, claimed expertise in two new areas, the world economy and the second economy, reinterpreting them within the web of reform economic ideas. Finally, through their personal connections with the democratic opposition, economists connected their market ideas with liberal democratic ideas. Through these alliances and reinterpretations, as well as the spread of economic knowledge and economists as a result of the NEM, political actors agreed on the need for a market economy and liberal democracy. From the experiences with past reform, the final creation of a market economy appeared to promise a powerful role for economists as the primary interpreters of the market.

Theories of Professional Failure

The changes after 1989, however, did not bring the successes that the market and democracy seemed to promise economists. Instead, these changes undermined the very situation that had allowed economists to influence policy and gain professional rewards in the first place. Individual economists did succeed, but the diminished role of economists and the related professional disempowerment suggests a form of deprofessionalization or professional failure.

Sociologists of professions have traditionally argued that professions thrive in democracies, beyond the intervention of the state, and outside of bureaucratic settings (e.g., Carr-Saunders and Wilson 1933; Derber 1982; Wilensky 1964). While studies have emerged relatively recently showing the possible benefits of professional work within non-democratic societies, state employment, and bureaucracies (e.g., Cleaves 1987; Jones 1991; Torstendahl and Burrage 1990), the professions literature has continued to focus on professional work within stable political systems. There have been few studies of the impact of revolutions on professions.[1] Lampert (1979) and Bailes (1978) examine Soviet technical experts during the Leninist and Stalinist revolutions. Jarausch (1990) studies the nazification and denazification of German professions.[2] These studies suggest that, while professions can make some gains during revolutions, in general professions fail during these moments because they lose autonomy and privileges. They become mere cogs in a machine run by political leaders. While these works provide insight into the experiences of experts in these countries, they do not systematically analyze the processes and consequences of this deprofessionalization.

The sociology of professions literature provides a variety of ways for understanding professional failure. The theories of proletarianization (e.g. Derber 1982) posit that professions as a group are disappearing due generally to developments in capitalist production, while theories of deprofessionalization (e.g. Haug 1973, 1977) find the cause of this disappearance in decreasing popular deference to professional authority. Freidson (1984) and Abbott (1988) find that professions as a group are not disappearing. Instead, changes -- both successes and failures -- have always taken place within professions. Freidson emphasizes

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[1] I use the term "revolution" here to describe a wide variety of transformations, such as Stalinization, the transition to capitalism, and nazification, in order to consider the possible common impacts these changes have on professions. Applying this term to these events is, however, quite problematic, as discussed, for example, in East European Politics and Societies vol. 13 no. 2.

[2] Kovács (1994) discusses Hungarian professions from the mid-nineteenth century to the Second World War, but she focuses primarily on the ways professions became illiberal, rather than systematically analyzing their institutions and qualities.

intraprofessional competition in which professions contain subgroups with different interests, demands, and perspectives.[3] Some subgroups may come to dominate others within the profession and, in a sense, deprofessionalize them. Abbott studies interprofessional competition. According to his model, professions compete for turf within an equilibriating system of professions and can resolve these conflicts through a variety of means, such as by gaining full jurisdictions, sharing them in different ways, or losing them altogether. While either individual professions or subsections may fail, professions as a group are not disappearing anytime soon.

Political and social change, however, can reorganize the professional system in fundamental ways. Abbott (1988) recognizes that he presents his system of professions as unchanging from the Industrial Revolution to the present: "I have also generally assumed that the competition model holds 'in the same way' throughout the period discussed" (p. 317). This assumption allows Abbott to explore the mechanisms of professional development, but he then artificially considers politics only as mediated by the system of professions rather than as a direct factor in professional work and development. Both Abbott and Freidson separate professions from politics, considering politicians, political parties, and the state as outside the professional system, functioning only as means to gain legal monopolies over

[3] Freidson's approach is similar to that of Bucher and Strauss (1961), who argue that professions are "loose amalgamations of segments pursuing different objectives in different manners and more or less delicately held together under a common name at a particular period of history" (p. 326).

jurisdictions, such as through state-sanctioned credentialing or licensing.[4] While the system of professions retains its competitive structure during revolutions, the role of politics can no longer be considered outside, merely mediated by the system. During revolutions, political leaders seek to redefine and reorganize professionalism in line with their vision of the new society. In order to establish this new society, they work to break down professional authority and loyalty, removing possible obstacles to political loyalty and rapid social change. They have many resources, including the control of violence, administrative power, and finances, to enforce their system. Furthermore, in some cases, such as Hungarian economics, political actors become competitors for professional turf, arguing that they rather than economists should make economic policy and other economic decisions. The system of professions must be integrated back into its political context to understand both the impact of the non-professional sphere and the impact of professions on politics and society.

I examine the Hungarian economics profession after 1989 at two-levels of analysis not included within the competitive model: national politics and international politics. National polities matter to professional life because they can alter the nature of expert work, particularly by including or excluding expert participation, but also through the funding and support of professional institutions. In the case of Hungary, economists lost their special role within the polity, which had many other consequences for them. The international environment is also important,

[4] Krause (1989) has criticized Abbott for ignoring the direct influence of the "macrolevel" of states, political parties, and sectors of capitalism.

particularly for non-core countries. Cold War and post-Cold War politics motivated changes in the internal politics of many countries and in their systems of expertise. Hungary did not avoid these changes. In Hungary, American economic science became the dominant professional authority through the creation of American-style economics education, the education of many young economists in American universities, the adoption of American publication standards, and the privileging of American professional journals and associations. As a result of processes at the national and international levels, the Hungarian economics profession became highly fragmented and lost its institutional role in the national polity, which meant economists lost their ability to make strong policy proposals and link these proposals to their professional development.

National Politics

Szalai (1994) asks, "Where did the reform economists go?" (p. 211). By successfully arguing for a market economy and liberal democracy, reform economists destroyed the situation that allowed them to have influence and professional benefits. Their privileged position arose because of the particular socialist polity and the particular relationship between economists and politicians. After 1989, the Hungarian polity expanded greatly, which increased the opportunities for influence by many different groups, not just professionals, in the policy process. Political leaders and other political actors also directly competed with economists for the jurisdiction of the economy. These political actors moved into areas once controlled by economists, making economic questions into political ones. With the transformation of this polity, economists no longer had their once powerful political role. At the same time, professional practice remained closely intertwined with political power.

The diminished role of economists began even before the 1990 elections because a political society had already emerged. In chapter five, I argued that Hungarian civil society was understood in large part in market terms due to the economization of political concerns after the Revolution in 1956 and to the connections between reform economists and dissidents. In distinct contrast to previous Hungarian social movements linked to civil society, political society emerged in 1989 along with the new political parties (Arato 1992).[5] Political actors at the same time closed off the political sphere from civil society. For instance, participants in the National Roundtable negotiations did not allow press coverage or public attendance at these negotiations. The new coalition government strengthened the state and pushed through reforms with little regard for public concerns about them because it saw these reforms as absolutely necessary. Finally, the two main political parties, the Hungarian Democratic Forum and the Alliance of Free Democrats, agreed to dismantle the pseudo-democratic mechanism for public participation established by the Kádár regime without providing an effective replacement. These processes expanded the political sphere and weakened civil

[5] This economic society brought forth the first overtly political actors. In 1988, VOSZ formed as an independent representative for new entrepreneurs (Seleny 1993).

society, which became increasingly passive in comparison with the activity of 1989 and 1990.

As a result, the nature of civil society also changed. With the emergence of a political society, economic questions became less important. Economic issues had once embodied larger political concerns, such as questions about the right to participate in economic policy-making and the right to make economic decisions free from political intervention. Economic discussions provided a venue for oppositional activity and criticism of the regime. Yet, once one could overtly act political, economic issues lost their urgency.[6] Furthermore, major political actors had already agreed on the main steps of economic reform to create a market economy, while they strongly disagreed over the future division of political power and the necessary steps toward multi-party democracy (Schiemann 1999). With the turn toward political questions separated from economics, the economy and thus economists became less important.[7]

Economists did participate in the polity, but in comparison to the pre-1989 period, their influence had been diluted through the democratic expansion of the polity. Before the changes, the Party had restricted the polity and allowed economists to play a central role in creating reform proposals, administering the economy, and

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[6] The Hungarian population surely considered economic concerns extremely important, but here I am mainly discussing former dissidents, intellectuals, and elites in political parties and social movements, who could now make overt political claims.

[7] Similarly, Szalai (1994) found that the "Change and Reform" document in 1987 established an overt political role, which led to the emergence of a political sphere and thus ended the "mediating" role of reform economists (p. 214).

representing the economy. Market reforms during socialism expanded the power of economists because decisions were decentralized away from the Politburo, broadening the need for economists as mediators. Economists' influence appeared as if it would only increase with time and the expansion of the economic sphere.

After 1989, however, the sphere of economists' authority began to shrink. On the one hand, with the removal of the Communist Party from the government in 1990, the institutions that economists had influenced were closed or greatly reduced in size. Economists had powerful representatives in these institutions who could promote the reform proposals of economists.[8] Economists had also come to dominate state agencies, such as the National Planning Office, which had disappeared. With the end of these institutions, economists lost their institutional base in the polity and thus also in the economy.[9] On the other hand, with democratic reforms, the political arena expanded to include a multitude of new actors. In the restricted polity of socialism, economists played a powerful role because few groups were allowed to claim authority over economic issues. After 1989, the power to make political decisions was dispersed to the multitude of new political actors. Economists had to work within this expanded polity without their once powerful institutional connections. With the establishment of parliamentary democracy, economists lost

[8] Hankiss (1992) claims, "One could find a patron, a sponsor, a Maecenas for almost all kinds of ideas and projects in the last decade of (the Austro-Hungarian empire and) the Communist ancien regime" (p. 360).

[9] Economists retained some power in the process of dismantling the socialist economy by holding important positions in transitional institutions, such as the State Privatization Agency, which temporarily replaced the National Planning Office. Personal communication with Ákos Róna-Tas.

their positions and connections as the centralized, restricted polity vanished and as they became one group among many within the rapidly expanding polity.

Interestingly, economists during the Stalinist period from 1948 to 1953 experienced a similar dilution of their political influence, albeit for very different reasons. In the Stalinist period, the polity became highly restricted, leaving economists with a limited role in the new system. Since 1989, the polity has expanded and centralized party-state institutions have ended, leaving economists yet again with a limited role in the new system. These two radically different politics created the same effect. The end of economists' once powerful group influence in both periods suggests that professions do best in a middle position between oligarchy and democracy, in a kind of expert democracy where professionals are included in the polity, but lay people are not. Stalinism and liberal democracy both restrict professional influence in the polity. Furthermore, significant social and political change severs many of the political networks and patronage ties upon which professional authority and work relies. Therefore, at least in the case of Hungary, stable political environments, as in the Kádárist period particularly from the early 1960s to 1988, provide opportunities for expert power to expand.[10]

Not only did the changes of 1989 bring a flood of new political actors, these actors also had different motivations than economists appeared to expect. Economists had undervalued the possible tensions between democracy and the

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[10] As Brint (1990, 1994) has also suggested, socialist Eastern Europe had many of the conditions for technocracy, but, I argue, only during the period between 1953 and 1989.

market.[11] For example, in the Party's last economic reform proposal, the authors of this proposal declared that their reform was "not weakened with compromises" (Berend 1989: 11). This declaration assumed the unproblematic union of political democracy and economic rationality, understood as inherently pro-market. In the special volume of ACTA Oeconomica that I examined in the previous chapter, economists discussed the need for a market economy and democracy, privileging plans for economic competition, responsibility taken on by private owners, and new property forms. Yet, they did not explore how political actors might differ from economic actors and might have values that differed from those of economists. Economists had undervalued the potential tensions because they often saw the new realms of the market and democracy as formally similar systems. According to this view, the removal of the totalitarian Party-state through democratic reform would free both political actors from political irrationality and economic actors from economic irrationality. In the sphere of economic issues, these political actors would be economically rational and thus clearly understand the need for market reforms. Yet, *homo politicus* did not act like *homo economicus*. In contrast to *homo economicus*, whose only allegiance is to economic self-interest, new political actors had identities beyond that of economic actors working within a market economy, including religious, ethnic, and political party affiliation.

[11] Weintraub (1992) discusses these tensions in relation to Eastern Europe.

Economists felt that they could not convince political leaders or the population to accept market reforms fully. The newly elected political leaders did not privilege economic experts and economic policy as earlier political leaders had. According to economists, economic policy was no longer a first priority of the government and the prime minister did not have "any clearly outstanding economic policy leader" near him in the hierarchy (Török 1992: 353).[12] These political leaders also maintained control over large parts of the economy because the new democratic system did not "automatically mean a separation of politics from economy," since it did not end state ownership (Major 1991: 361). Furthermore, economists perceived the population as unconvinced of the need for substantial economic reforms (e.g., Tardos 1992: 351; Veress 1992: 361-362). Reflecting the economics community's deep anxiety over the difficulties of democracy, Kornai (1996) asked, "Is it permissible to push through a reform despite opposition from most of the public?" (p. 53). While he declared the absolute necessity of democracy, he did concede that the state could impose reform if officials saw no other way to help the economy. Democracy thus problematized economists' role as expert and their advocacy of market reform.

The fragmentation of political power among political parties further dismantled the role of reform economist. Before 1989, reform economists worked

[12] Similarly, Hankiss (1992) notes that after 1989, "even the most ingenious reform plans and projects were ruthlessly swept aside by the invasion of neo-conservative and neo-liberal ideas coming from the West and by nationalist-populist emotions re-emerging from the past" (p. 362).

together and presented united reform proposals to the Party-state. During this process, economists made many compromises, but in the end they produced a single document, which made a powerful impact on economic decision-making within the Party-state. With the emergence of political parties, economists immediately began working for them as advisors and thus made overt political commitments to particular parties. As advisors, economists could no longer unite their discipline to make powerful, concerted reform claims. The separation of economists into political parties thus weakened their ability to promote reforms.[13]

Not only did political actors appropriate jurisdictions formerly controlled by the economists, but other professions also competed with economists for governmental work. Most importantly, lawyers increasingly worked within the government (Szalai 1994: 214). The transition to capitalism and democracy required an enormous number of new laws. The new Parliament, which lasted from 1990 to 1994, spent most of its time creating laws. In that time, law makers created 219 new laws, 213 law amendments, and many other less significant alterations in laws, a large amount in any country (Kukorelli 1995: 33). Lawyers became the expert of choice within the new government.

The nature of economists' work changed as the result of the reorganization of the Hungarian polity. This case shows the necessity of including the state and

[13] McDonald (1992) shows that economists allied with different parties made divergent proposals (pp. 278-279). For instance, those in the ruling Hungarian Democratic Forum emphasized the positive economic developments, while those in the Alliance of Free Democrats elaborated on economic problems.

politics within the study of professions: polities do matter for professions. The emergence of political society meant the diminishing importance of economic issues and therefore economists as well. The expansion of the polity diluted the role economists had played. The new political actors did not necessarily share the economic values. *Homo politicus* replaced *homo economicus*. Furthermore, as a result of the breakdown of their connections with the reformers in the Communist Party and their institutions, economists found it more difficult than they had expected to convince political leaders and the population of the need for reform. Finally, economists became divided into political parties and found that lawyers had an expanded role in the new government. Through these processes, economists lost their privileged role in the government.

International Politics

By maintaining the assumption that the system of professions remains unchanged from the Industrial Revolution to the present, we overlook one of the most significant motivating forces to knowledge production and professionalization in our century: the Cold War. States in both camps competitively developed new and old disciplines, such as engineering and other fields related to the space program, area studies and international relations, and mathematics and game theory. In the post-Cold War period, the United States has come to dominate international politics and thus has also altered the professional landscape. At least in the realm of economic science, the American mainstream controls the professional institutions and standards. The process of Americanization began in Hungary well before 1989, but has significantly intensified since 1989. The sociology of professions should thus consider the influence and possible domination of foreign professions, which set new standards, provide new forms of training, and promote new kinds of scientific knowledge.[14] Not only could subgroups within a profession or other professions compete with economics for jurisdiction over the economy, but the professions of other countries could also seek to dominate Hungarian economics. Cold War and post-Cold War politics has redefined professional life in ways not yet fully examined.

While economists generally wanted to take part in the American-dominated international economics community, the Americanization of economics threatened the relative professional autonomy Hungarian economists had gained. Soviet economists had dominated the professional institutions of Hungarian economists until 1953. From 1953, Hungarian economists developed reform economics and their own institutions. Hungarian reform socialism became a topic of interest internationally both for other socialist countries, particularly China, and for capitalist economists. With the transformation away from socialism, however, Hungary lost this special status. The international economics community was no longer as

[14] Babb (1998) has initiated this reevaluation of the sociology of professions by considering the Americanization of economics in developing countries.

interested in their research on socialism.[15] Economists from the socialist period were seen as having outmoded knowledge.[16] As one Hungarian observer has noted, because they had focused on the problems of the socialist system, "it came as a big shock to Hungarian economists that the subject of their studies turned suddenly into a subject in economic history" (Bence 1992: 333). The international economics community was no longer interested in books on socialist economics and its special characteristics because this type of economy no longer existed.

The American profession controlled the primary institutions to which Hungarian economists now oriented their profession. I previously discussed the increasing orientation of Hungarian economists to Western economics. Since the 1960s, the Ford Foundation and, later, IREX conducted academic exchanges, in which many economists participated. This trend was intensified after 1989. Especially after 1989, Western neoclassical economics became the privileged form of economic knowledge due to the international prestige of American economics, the use of neoclassical arguments by such international financial organizations as the International Monetary Fund, and the large sources of funding for American-style professional institutions in Hungary. Instructors with the Civic Education Project taught American economics and other disciplines. The Economics University and the

[15] Employees of the Economic Science Institute in Budapest in 1995 and 1996 told me this quite often. Hankiss (1992) has also stated, "There is no solvent social demand, or – to use the new terminology – no market for the staple products of traditional East European intellectuals: for 'great ideas,' Kafkaesque visions, absurd but fascinating hypotheses free-floating great theories" (p. 362).

[16] As Hankiss (1992) also claims, "With the collapse of the Communist system, they [social scientists] have lost their object of study, their special expertise, their primary social function" (p. 362).

Central European University established American economics and business programs.

The role of Hungarian economists in their own government was threatened by the wide-spread use of foreign advisors in economic policy-making. The new coalition government often employed the expertise of foreign advisors. International aid agencies further promoted the use of these advisors because these agencies did not recognize the policy ideas of Hungarians (Wedel 1998). These agencies could powerfully promote particular individuals, institutions, and types of knowledge with large sums of aid, which changed Hungarian economic expertise in ways Hungarian economists could not control.[17]

Hungarian economists were often critical of these foreign advisors. According to Major (1995), many of the advisers had never before been in the country where they offered their services and in some important cases showed "complete ignorance of the Hungarian economy in the 1990s" (pp. 1, 11). Major argued that foreign advisors did more harm than good in their desire to use Eastern Europe as a laboratory for their own ideas. Writing about a proposal made by a group of foreign advisors, one economist attacked the "absurdities" of the practices of foreign advisors:

[17] In the area of ideas, for example, for example, American and Western European aid agencies believed that it was best to have "private" owners, rather than other types of owners such as worker ownership (Wedel 1998: 52). These ideas were privileged over others. Similarly, Szalai (1994) also wonders how economic democracy became merely voting every four years and Western capitalism. I suggest that aid agencies implemented their own understandings of the terms "democracy" and "market" based on their own consensus on neoclassical economics.

> I have in mind the wasting and tragi-comical practice of financing a company of OECD-, EC-, IMF-, and World Bank bureaucrats and specialists from the relief funds assigned to Eastern Europe, sending them on travels, and launching them into battles of integration which start, as a rule, at the cold buffets of the Warsaw Holiday Inn . . . (Greskovits 1990: 350).[18]

This critical attitude, however, did not stop the devaluation of Hungarian economists' claims to authority.

The international economics profession, dominated by the U.S., has played a significant role in the Hungarian profession. Hungarian economists have adopted many of international professional standards and privilege American economic institutions, which remove control over training, qualifications, and knowledge production from the Hungarian profession. Finally, international financial institutions have influenced the growth of certain schools of thought through their resources and have removed control over areas of economic work from the hands of Hungarian economists.

A Divided Profession

The changes in the national polity and the influence of a foreign professional authority have caused the fragmentation of the economics profession, impairing economists' ability to make cohesive economic proposals or strong professional claims. Central to these processes has been the increased politicization of economic

[18] Wedel (1998) also discusses the "Marriott Brigade," a term coined by the Polish press to describe short-term consultants hired by aid donors.

science, reflecting the intertwining of party politics, economic knowledge, and professional work. The post-1989 period at first glance appears very different from the violence and hyper-politicization of individuals and knowledge, for example, in the Stalinist period. However, economics did once again become politicized after 1989. This was a general trend throughout society, as Hankiss (1992) remarked, "The gentle revolution has repoliticized our lives almost overnight" (p. 359).[19] Those who participated in public life felt "an extremely strong pressure" to attack their political adversaries and allow no criticism of their own views (ibid., 360). Economists offered their expertise to political parties and thus became separated by political commitments.[20] One economist, who himself was an expert for a political party, recognized that the position of advisors "radically changed when they left the terrain of economic reasoning and they entered the political game" (Major 1995: 11). These advisors floated between the role of politician and the role of intellectual (Szalai 1996: 14). As advisors, economists no longer could unite across their discipline to make powerful, concerted reform arguments. The separation of economists into political parties thus weakened their ability to promote reforms.

[19] Pusic (1993) also senses an "overpoliticization of every aspect of life" (p. 2).

[20] Szalai (1994) also finds that with the formation of political parties the intellectual opposition disintegrated. Some intellectuals left politics to work in science. Others became politicians, bureaucrats, expert advisors, or business people (ibid., 10-11). As a result, they lost their unified role as critical intellectuals. Andorka (1993) also recognizes this loss of feeling of "togetherness," in which social scientists defended each other against attacks by the old political elite and ideologues (p. 103). In place of this solidarity, "fierce fights between the social scientists joining different parties appeared, which are highly disadvantageous for objective scientific discourse" (ibid., 104).

Similar to the Stalinist period, certain groups of economists benefited from this situation by making overtly partisan commitments. In 1990 to 1991, the new coalition government sought to put party loyalists in the top positions in academic institutions (Bence 1992: 327-328). Economic knowledge also became politicized, in that certain ideas were seen as politically suspect. Marxist-Leninist political economy and other disciplines considered ideological were dismantled.[21] In the Economics University, these disciplines were replaced by microeconomic and macroeconomic theory. As with the rest of society, the economics profession experienced a politicization of its practitioners, institutions, and ideas, though to a much lesser degree than in the Stalinist period.

Due to the disappearance of the restricted, unified polity dominated by the Communist Party, economists lost many of their professional resources. After 1989, the primary problems for economists were caused by a lack of funds. National financial problems made economists' work very difficult.[22] The deterioration of the economy and the shrinking state ended many funding sources (Földi 1996). The government provided fewer funds for research. The percent of the national budget going to the Academy of Sciences, which organized research, had decreased from

[21] Marxist-Leninist political economy had already been attacked before 1989, but it was purged after 1989. Tamás (1992) finds that while "serious accusations were not made against social research," "The debates around the ideological faculties of the universities constitute an exception to this" (p. 337). Kovács (1999) similarly argues, "The transformation clearly devalued certain components of economic knowledge (e.g., textbook Marxism, market socialism, comparative economic systems) and revalued others (e.g., neoclassical synthesis and its institutional critique, comparative capitalism, international economics, development theory)" (p. 321).

[22] Lampland (1999) has also discussed these financial difficulties (pp. 332-333).

1990 until 1995 (Pannonhalmi 1995: 1379), while inflation further ate away at these funds (Bittsánszky 1993: 848).[23] With reduced government funds, scientists could not conduct large research projects because

> Domestic independent resources are directed to a personal scholarship or two, travel abroad, conference participation, and publications . . . For more serious projects, however, they would hardly be sufficient to be the exclusive or main resources. (Tamás 1992: 355)

As funding to economic research institutes decreased, many researchers left them to become consultants (Földi 1996). At the Academy of Sciences' research institutes, the number of employees had decreased by one third between 1988 and 1991 (Bittsánszky 1993: 851).[24] With the decreasing subsidies, the price for books and journals increased (Andorka 1993: 103).[25] Research institutes had less money to buy books and journals (Láng 1992: 50). Hungarian journals had to reduce their publications. The editor at ACTA Oeconomica found that the changes in 1989 "posed a major challenge to our journal" (Földi 1996: 5). This journal had to shrink to half its original size and find other sponsors, when its institutional sponsor closed. With the freedom to publish abroad and particularly in new Western journals on Eastern Europe, Hungarian journals also did not attract the large number of quality authors they once did. Research conditions further deteriorated when the system of

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[23] Furthermore, one of the main providers of research money, the Hungarian Research Fund, had less money to allot in 1992 as compared to 1991, which meant it could not finance accepted projects (Andorka 1993: 102).

[24] Bittsánszky (1993) estimates that 5% of the Academy researchers went abroad (p. 851). The percent of researchers decreased 5-15% yearly (ibid., 853).

collecting statistics used before 1989 collapsed, making economic analysis difficult. While the profession experienced many benefits, such as in freedom to publish and travel, economists also had many financial and other difficulties due to changes in the polity.

The economics profession was also divided generationally. The majority of the older generation had studied the socialist economy. While they had read Western economics literature, they often used the language of reform economics. The younger generation has been oriented toward the American economics profession and its focus on finance, business management, and neoclassical theory. Since socialism had ended, older economists who had studied socialist economics were seen as lacking specialized knowledge about capitalism. An economist, who began practicing in the early 1950s, recognized, "Now, with the generation of future economists, the cycle of neophyte fervor and turning against reality gives me a feeling of 'deja vu'" (Nagy 1995: 3). This economist spent many pages explaining to younger economists that those of his generation had long turned against Stalinist economic theory and had read Western economics literature since the mid-1950s, that Western economists had been jealous of Hungarian economists because they could actually test their national economic models, and that the work of Hungarian economists was exciting, professional, and important. The generational split within the economics profession reflected a series of differences between these two groups:

[25] Without providing any evidence, Andorka (1993) asserts that state subsidies have largely been abolished, which led to a sharp decrease in the publishing of scientific books and journals (p. 93).

differences in training institutions, professional associations, objects of study, and languages.

Returning to Theory

The transformation to a capitalist economy and liberal democracy has had unintended negative consequences for the Hungarian economics profession: fragmentation of the profession, domination by the American profession, and the loss of the influential role of the reform economist. These consequences, however, are not signs of an overall deprofessionalization or professional failure. Hungarian economists have continued to produce knowledge, use methodologies created before 1989, and maintain their professional institutions. As throughout Eastern Europe, Western agencies have come to respect the ideas and proposals of some domestic economists (Wedel 1998).[26] In spite of their intellectual differences arising from party commitments, Hungarian economists have maintained a broad consensus on the need for private property, open markets, and private entrepreneurs. Economists have continued working, and some economists have become quite powerful in the polity. More importantly, economists found places of influence and status outside the domestic political sphere, working for companies, banks, and international agencies. As Freidson (1984), Bucher and Strauss (1961), and Abbott (1988) claim, there are

[26] Lampland (1999) has discussed the problems Eastern European intellectuals still face when claiming the universality and thus international value of their knowledge: "what are the social and historical conditions under which particular theories acquire the pedigree of generality, universality, abstraction, while other ideas come to be seen as too tied to a specific locale?" (p. 334).

always subgroups within professions with their own interests, demands, and perspectives. While some groups, particularly older national professional elites, fared poorly during the changes, other sectors of the economics profession did quite well, including those made up of young, foreign-trained, highly technically skilled economists. It is up for debate whether the difficulties and failures that the economics profession as a whole experienced were actually negative. One could see these as necessary changes to adapt to the political situation, which allowed the profession to continue. Or one could see these as part of a progressive move within a backward profession, which allowed Hungarian economists to work within an international economics community. In any case, the transformation to a market economy did not bring the utopian expert democracy dominated by economists that the events in 1989 seemed to promise.

Abbott's model of interprofessional competition demonstrates that experts must make their claims in relation to other professional and non-professional groups, including the state, which functions outside the professional system. In this chapter, as well as this entire dissertation, I have sought to show the centrality of the national polity and the international environment to professional development. I thus extend the competitive model to include political actors and the state as pivotal actors in professionalization. Moreover, I seek to reveal the arbitrary boundary between politics and professions that these actors themselves have established. The importance of politics to professions is quite clear during system changes, but it is also apparent during times of stability. Hungarian economists formed alliances with politicians, competed with them for the jurisdiction of the economy, and worked within the state, thus forming a close connection between economics, politics, and the economics profession. Economists also allied with international agencies, such as the IMF and the Ford Foundation. When the system change occurred in 1989, as well as after 1948, economists had to reestablish their professional role within the polity without their once powerful patrons. The case of Hungarian economics shows the need to expand the model of interprofessional competition to include political actors as central figures.

Professionals are important not merely for their ability to gain political influence, but primarily for the particular knowledge they wield. Hungarian economists gained their influence by converting others to their particular economic way of understanding the world, which had far-reaching consequences for Hungarian society and politics, as well as for their own profession. The rise to dominance of the market in Eastern Europe has usually been presented as a natural outcome of removing the blinders of Marxist ideology. This market dominance must be denaturalized to show the social work and interests behind the promotion of the market in Eastern Europe before the market became black-boxed as a natural, inevitable event.[27] Cold War politics made the sociological study of socialist knowledge difficult, particularly around the highly politicized and morally charged categories of the market, planning, democracy, orthodox Marxism-Leninism, party

[27] Sociologists of scientific knowledge use the term "black box" to mean knowledge that is accepted and used on a regular basis as a matter of fact.

loyalty, and political opposition. The global turn toward free market capitalism and against state intervention during the 1980s and early 1990s has intensified these difficulties.

The study of Hungarian economists helps to show that the rise of markets was not a necessary event, but rather was part of an on-going project of professionalization on the part of economists and part of their critique of socialism within a Cold War world. To remove economic science from its political, social, and moral context is to accept economists' arguments that they were right all along and thus avoids a truly sociological analysis. This dissertation has been an attempt to recontextualize these events historically and sociologically in order to understand the social forces behind market dominance, the relationship between politics and professionalism in Eastern Europe, and the Cold War and its legacy, which all countries have experienced.

Appendix A
Hungarian Economists Who Participated on Ford Foundation Exchanges

1964-65

Bognár, József. Director of the Afro-Asian Research Group (1965) and of the cultural exchanges program.

Bródy, András. Mathematical economist at the Economic Science Institute.

Péter, György. Director of the Central Statistical Office. Length of stay: one month.

Sebestyen, József. Mathematical agricultural economist.

Zala, Júlia. Official in the Central Statistical Office. Length of stay: one month.

The Ford Foundation also wanted to send the following economists but could not get them approved: Mária Augusztinovics, Róbert Horvath, Z. Kenessey, János Kornai, András Nagy, and György Markos.

1965-66

Of 75 invited scholars, eleven were economists. Economists made up the largest group. Seven economists actually participated.

Ács, Lajos. Head of the Department for Economic Research at the Hungarian National Bank.

Bora, Gyula. Economic geographer in the Economics University.

Hoos, János. Mathematical economist at the National Planning Office, instructor at the Economics University.

Krekó, Béla. Mathematical economist, instructor at the Economics University, and director of the Economic University's Computer Center.

Nyilas, József. Instructor in international economics at the Economics University.

Ranki, György. Economic historian.

Simon, Ann. Planning and mathematical economist at the Central Statistical Office.

1966-67

Berend, Iván. Economic historian at the Economics University. Later head of the Economics University.

Mártos, Béla. Mathematical economist in the Economic Science Institute.

Palánkai, Tibor. Instructor of international economics in the Economics University.

Zsuzsa Ferge, a scholar in the Central Statistical Office, was accepted by the Ford Foundation, but the Hungarian government cancelled her trip. Tamás Fugedi, an industrial economist from the Technical University, died before the academic year started.

1967-68

Kádár, Béla. Economist in Afro-Asian Research Group, which later became the Institute on the World Economy.

Kondor, György. Mathematical economist at the Economic Science Institute.

Raba, András. International economist at the Cycles and Market Research Institute.

Varga, György. Editor of Figyelö (economic weekly), member of National Committee for Management.

1968-69

Márton, Miklós. Economic journalist for Népszabadság and editor of Gazdaság.

Nagy, Tibor. Financial law professor at ELTE.

Nyilas, András. Head of department at Economic Science Institute.

Rabar, Ferenc. Director of Laboratory for Information Processing (management science group).

Appendix B
Glossary of Organizational Names

Accounting College	Számviteli Föiskola
Agricultural Organizational Institute	Mezögazdasági Szervezési Intézet
Budapest University of Economic Sciences	Budapesti Közgazdaságtudományi Egyetem
Business and Marketing Research Institute	Konjunktúra- és Piackutató Intézet
Central Committee	MSZMP Központi Bizottság
Central Statistical Office (CSO)	Központi Statisztikai Hivatal
Communist Party Center	MSZMP Pártközpont
Domestic and Foreign Trade Academy	Bel- és Külkereskedelmi Akadémia
Economic Committee	Gazdasági Bizottság
Economic Panel	Gazdasági Reformbizottság
Economic Policy Division (EPD)	Gazdaságpolitikai Osztály
Economic Research Institute in CSO (ERI)	Gazdaságkutató Intézet
Economic Science Institute (ESI)	Közgazdaságtudományi Intézet
Economics Committee (1957)	Közgazdasági Bizottság
Economics Cooperative	Közgazdasági Munkaközösség
Economics Documentation Center (EDC)	Közgazdasági Dokumentaciós Központ
Economics Faculty	Közgazdasági Kar
<u>Economics Review</u>	<u>Közgazdasági Szemle</u>
Economics University	(Marx Karoly) Közgazdaságtudományi Egyetem
Financial Research Institute (FRI)	Pénzügykutató Intézet
Hungarian Academy of Sciences (HAS)	Magyar Tudományos Akademia
Hungarian Economics Association	Magyar Közgazdasági Társaság
Hungarian Institute for Economic Research	Magyar Gazdaságkutató Intézet
Hungarian National Archives (HNA)	Magyar Orszagos Leveltar (MOL)
Hungarian Scientific Council (HSC)	Magyar Tudományos Tanács (MTT)
<u>Hungarian-Soviet Economics Review</u>	<u>Magyar-Szovjet Közgazdasági Szemle</u>
Ministry of Finance	Pénzügyminisztérium
National Planning Office (NPO)	Országos Tervhivatal
Permanent Economics Committee (PEC)	Közgazdasági Állandó Bizottság (KAB)
Planning, Finance, and Commerce Dept.	Terv-, Pénzügyi- és Kereskedelmi Osztály
Politburo	MSZMP Politikai Bizottság
Scientific Qualifications Committee	Tudományos Minösítö Bizottság
<u>Social Review</u>	<u>Társadalmi Szemle</u>
State Control Center (SCC)	Állami Ellenörzési Központ
State Economic Committee	Állami Gazdasági Bizottság
State Economic Division (SED)	Állami Gazdasági Osztály
Supreme Economic Council	Gazdasági Fötanács
World Economic Research Institute	Világgazdasági Kutatóintézet

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Archives

BUES Budapest University of Economic Sciences Archives
FF Ford Foundation Archives
HNA Hungarian National Archives
HAS Hungarian Academy of Sciences Archives
 HAS HEA Hungarian Economics Association
 HAS PEC Permanent Economics Committee
OHA Oral History Archives
PIA Communist Party Institute Archives