Hungary: Towards a Socialist Market Economy?

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The recent decades of Marxist social science, particularly political economy, have been characterized by an intense theoretical defensive. The shortcomings of Eastern European socialism and its ideological reflections have been revealed gradually. However, the “ruthless criticism of all that exists” has not been accompanied by an alternative socialist theory. The image of the society to be achieved is missing or mystically superficial. For the most part, we only know what we do not want. In this context every attempt at building a coherent vision of socialism must have particular importance for Marxist scholars.
The following essay poses the question of whether or not markets and socialism can be connected with each other in a coherent way. I believe that this question is timely once again, since those who follow the economic history of "existing socialism" in Eastern Europe can see that the market keeps reappearing in one way or another in most of these countries. That is, in addition to (or instead of) central planning, prices, profits, interest rates and leases gradually acquire more important roles. Recently the Hungarian government has been urging the formation of different private and group forms of property and production units. Negotiable public bonds were put into limited circulation. How should we judge this process? Is it an adequate approach to socialism, or is it moving away from socialism? Will this process give us a positive image of functioning socialist society, or will we be faced with another failed experiment?

This question has been raised with greatest precision in Hungary, a country that more than any other during the last one and a half decades, has removed itself from the traditional conception of central planning. Having started out with plans determining every detail of resource allocation and production, then continuing with a less formal model of economic direction, the economy is now slowly becoming one in which market signals and consumer needs expressed in purchasing power are important factors in enterprise activities. Stated boldly, the basic socio-economic issue of the period just after World War II was the choice between market or plan. This issue was modified by 1968 to market and plan. Now debate is focused on a new variation: market instead of plan (as the basic regulatory mechanism of social activity).

This paper is composed of five parts. The paper first outlines the inadequacies of the present Hungarian economic system — inadequacies that gave rise to an important debate over the system's future development. The second part deals with the social character of the debate and touches upon some methodological questions. The third part outlines the two leading economic models of Hungarian market socialism. And in the final two parts, I analyze critically both market self-management and managerial socialism.

**Economic Background to Theoretical Debate in Hungary: A Brief Overview of the 1968 Reform** As a result of economic
reforms introduced in Hungary in 1968, the forms and the nature of enterprise-state relations have undergone some changes of significance. There has been a departure from the traditional centrally planned model in favour of one under which a larger role is given to the market mechanism. From the point of view of economic theory, the reform represents an *experiment* in the articulation of the planned and the market mechanisms of the economy (while maintaining the predominance of the planned economy).

The architects of the reform envisaged as their immediate goal, greater independence for the production enterprise. For this very reason, a number of rights concerning decisions over production and marketing were transferred from the ministries to particular enterprises. At the same time the number of plan indicators was significantly reduced, and the system of *compulsory plan instructions* as well as the *plan disaggregation* and *material quotas* ended. Economic rather than non-economic instruments came to play a larger role in enterprise guidance. The state’s intention was to transmit through the regulatory instruments to the enterprises plans containing only macro-economic goals. The state was no longer to determine either directly or formally (at least according to the original conception), the *daily production tasks* (for example the colour of a coat or shoe sizes). Indeed, enterprises were also given authority to make some decisions of a long-term, strategic nature. (For example, the enterprises have a certain degree of independence in the determination of their product prices and investment plans.) The main purpose of the 1968 version of central planning was to regulate, not the particular enterprises themselves, but (through the system of regulation) the economy as a whole. As the individual enterprises were to be regulated only indirectly, the realization of the enterprises’ own interests would have to be dependent upon market forces, and not upon the fulfilment (or non-fulfilment) of the plan. Profit was to become the prime motivating factor of the enterprise. Within this framework, enterprises would produce for the (regulated) market.  

However, reality did not bear out all the expectations of the reformers. Admittedly the number of independent enterprise decisions has grown; however, through the withdrawal and return of enterprise earnings the state continues to play a decisive
role in the determination of enterprise activities. This practice actually constitutes the core of the economic mechanism. A significant portion of enterprise revenues — in the form of taxes and, more importantly, various arbitrary fiscal deductions — is centralized and redistributed. The major portion of capital is, in other words, still allocated by the state. Through the centralization of investment funds the state maintains considerable economic power. However, it is not merely a question of the redistribution of capital funds on the basis of state priorities, which are often close to those of the market. Most importantly, the revenues withdrawn from the enterprises are so large that enterprises themselves are incapable of surviving on their own. They must constantly "beg" for state funds. Because of this financial subservience or extreme dependence upon the state (in contrast to the spirit of the reform) the will of the state continues to be strongly felt in daily production and distribution activities. Indeed, precisely because of the economic inability of enterprises to operate independently, the state must intervene on a regular basis. However, there is no objective criterion for distinguishing between justifiable and non-justifiable intervention. The enterprises — again as a result of their economic powerlessness — are not able to resist even those demands of the state that are contrary to their own interests.

Apart from the possibility and necessity of particular state intervention, this redistributive, hierarchical relationship generates specific enterprise interests as well. In this subservient situation, entrepreneurial conduct becomes marginalized or distorted. In the course of making decisions over production and investment, the primary consideration for enterprises concerns their prospects for obtaining state funds, ministerial goodwill and advantageous bargaining positions vis-à-vis regulatory organizations. They subordinate both profit and market position to these factors. The enterprise has no obvious interest in achieving profit (since there is the threat of having profit withdrawn), and no adequate interest in meeting price rises by its suppliers (since it knows the state will rescue it from such difficulties in any case). Often, producers have little interest in raising their own prices, since low prices may be precisely the basis for obtaining supplementary state funds. Indeed, their most important goal is the procurement of state funds. Often they
succeed in doing this. It thus turns out that they are subordinated, but not entirely powerless. For enterprises can often exploit the regulatory system, as they were able to do with the earlier plan commands. Information from the enterprises — essential for state decisions — can be distorted; monopoly, power and exhortation in the name of the “public interest” can be abused. So, very often the state is unable to control the efforts of enterprises to wangle funds. Thus enterprises — except in periods of investment cutbacks — are able to “drain” state funds independently of their economic performance.

The market communicates distorted information and the enterprises react to this information in a non-market manner. Additionally, the economic regulators tie managers’ hands and slow down enterprise reactions to changes in external circumstances. The confusion, internal inconsistency and unforeseeable changeability of regulators lead enterprises to speculation. They try to adapt themselves, not to the market (or to the people’s needs), but primarily to the regulators and expectations related to regulatory changes.  

The architects of the 1968 Hungarian economic model envisaged state intervention in *micro-economic* production, allocation and marketing decisions only in exceptional cases. They justified intervention in those emergency situations when market regulation is too slow, costly or creates excessive social inequalities. According to the supporters of the economic reform, these situations, although only occasional, were nevertheless inevitable. (It is not possible to discuss here whether or not these cases were underestimated.) In reality, however, those instances of “exceptional” state intervention have become the rule. This is due to the fact that as a result of compromise, enterprise dependence has remained a built-in, structural component of the model. This, then, is the immediate economic rationale for the possibility and even the necessity of particular state intervention in the post-1968 economy. Thus, state intervention is not primarily a result of arbitrary, bureaucratic distortion or abuse of power (though of course it may well be). Rather, it is a *product of the given mechanism* which evolved out of the economic reforms. As a consequence of the very nature of the economic mechanism, the state has moved into a situation where it must take micro-economic measures; the enterprises on the other side necessarily behave
as peculiar market actors who are strongly dependent upon state will and less dependent upon the consumers' wants. This, then, constitutes the major inconsistency of the 1968 model. 8

The Hungarian economy of today is neither planned nor market in character; it is both. It cannot be considered a traditional, centrally planned type, since the activity of the production units does not take place in an interest structure produced by compulsory plan commands. Yet it cannot be considered a market economy either, since the hierarchical relationship based on redistribution overshadows and distorts the regulatory role of the market. The Hungarian economy therefore bears the characteristics of both a centrally planned and a market economy. The most important aspect, however, is the will of the state as manifested in informal bargaining and regulation. In comparison to the earlier period, enterprises are now more independent, but their independence can still be interpreted only in the framework of their dependence upon the state. The basic difference is that since 1968 their dependence upon the state has become institutionalized in the redistribution of funds rather than compulsory-plan targets and material quotas. Under these conditions, the discontinuation of the practice of state intervention in micro-economic decision-making, and the continuation of the economic subservience of the enterprises, would lead to the immediate dislocation of the whole economy. In other words, it is argued that an actual increase in enterprise autonomy is possible only if the general mechanism (i.e., the product of 1968 reform) becomes the subject of a new reform. 9

The introduction of the 1968 reform was the result of the obvious inadequacies of the traditional centrally planned model and the pressure of a particular interest group. This group, based partly (but not exclusively) in the party, emerged because of certain perceived shortcomings or contradictions that were inherent in the model. However, analysis of the contradictions and irrationalities of the new, “interim” reform, as opposed to the mistakes made in economic policy, began to appear in the professional literature in the late 1970s. Within current professional circles — this time mostly outside the party — it is taken for granted that the maintenance of the present economic mechanism will sooner or later lead to economic disturbances or to an unacceptably slow rate of growth and, consequently, a widening
gap between the Hungarian economy and those of the developed capitalist countries. To prevent the concomitant economic and political breakdown, these professional circles see a strategic solution in the termination of the hierarchical state-enterprise relationship, that is, in a radical extension of enterprise autonomy. For Hungary to achieve this, they propose an overall structural reform that would give the dominant role in the national economy to the market.

The Debate over Economic Reforms: The 1980s The contending reform concepts, which were developed more and more intensively and systematically during the second half of the 1970s, obtained a more structured form of debate in 1980-81. The party — partly due to the pressure of the economic experts, and partly to the deteriorating performance of the economy — officially put the issue of the economic mechanism on its agenda. Working commissions were created by the party to analyze critically the present mechanism and to formulate propositions for its development or for changes (staying true to the 1968 principles). Well-known experts (both party members and non-members) were invited to participate on these working commissions.

Two fundamental viewpoints have crystallized during the debates. The first, having a proactive character, urges a radical market solution. The second attempts to maintain the status quo, supplementing it with prudent market-oriented measures. The subject of the debate, therefore, appears to revolve around the extent to which Hungary should adopt the market mechanism. In reality, the difference is more than a matter of degree, for there is a deep socio-philosophical difference existing between the two positions. The first regards profit-oriented commodity productions as the appropriate form of socialism, and the self-correcting market as the dominant regulating force. The second finds itself in a theoretical dead-end. It has rejected — correctly, in my view — the traditional type of central planning, but does not accept market-socialism, either. It can be characterized as a search for short-term solutions. However, given its theoretical weakness it tends to accept certain components of the radical market solution.
The former position is represented primarily by professional circles (i.e., by the external party advisors), while the latter is favoured mostly by the party and government apparatus. It would not be an oversimplification to regard each group as being homogeneous. There is, of course, some internal division, but within the professional circles, the partisans of the market solution are the strongest. Within the party apparatus, those who favour keeping and perfecting the existing mechanism are in the majority. A certain stand-off has been created: the professionals are not strong enough (partly because of the lack of mass support) to make the apparatus accept their strategy; the apparatus, on the other hand, does not have a coherent vision of the future. Herein lies the explanation for the present strategic vacuum. Even the impact of heightened economic difficulties on the outcome of this debate is not obvious. A deteriorating economic performance and the fear of mass dissatisfaction should lead to a revision of the mechanism and in that sense strengthen those who favour basic changes; on the other hand a poorer economic performance expressed in the form of acute shortages objectively works against any weakening of central authority and so strengthens the relations of hierarchical redistribution.

In reality, factory managers and workers support neither camp. As they have been essentially shut out of the debate, they carry little weight. Moreover, the direction of their support is and would be ambiguous. In principle the factory managers sympathize with the radical market solution, since in the long term it would result in the enhancement of their economic and political power. They would be the principal winners in “marketization.” In practice, there are few of them who actually prefer economic independence. Technological backwardness, the obsolete enterprise infrastructure, and weak economic performance — all of which they are very much aware of — would make meaningful competition impossible for many of them. A number of enterprise managers have an immediate interest in being dependent, since they are incapable of running their businesses independently. These fears make a number of factory managers supporters of the status quo. In terms of their immediate economic motivations, the workers are interested in rational management of their labour. They are interested, for example, in the removal of administrative limits preventing the achievement of higher income. This strengthens the partisans of enterprise independ-
ence. On the other hand, on the basis of their economic interest they are opposed to larger wage differentials or to decreases in job security, which are the inevitable concomitants of the market economy. To this extent they too are interested in the maintenance of the status quo.

This means that one can only in a very limited sense interpret the debate on the change of the economic mechanism as a struggle between the distinct interests of the apparatus and the professionals personifying market rationality. These groups' own purposes meet and cross those of other groups, even if these latter purposes are not expressed directly and do not constitute an active social force. In this sense, the maintenance of the status quo objectively serves (apart from the separated interests of the apparatus) the interests of large masses as well. Yet the partially conscious interests of masses at the same time require the efficiency surplus of the market mechanism, as well as the social rights and security assured by the present mechanism. This internal contradiction in the interests of workers contributes, even if it does so very modestly, to the continuance of the stand-off situation. It is also the expression (not at all conscious) of the social need for a third type of mechanism which would reproduce both the efficiency and the productive forces achieved by market regulation, as well as material-social security and equality.

We must mention a particular methodological problem inherent in the debate. The contending positions have a common feature: their normative, teleological nature. They formulate desirable conditions, objectives which should be achieved, and proposals for change. But they do not present the objective tendencies in the function of the economy or the necessities of progress. The advocates of the propositions generally do not even make an attempt to render their concept as a reflection of the movement of objective reality. They declare what the direction of social progress should be and not what its objectively necessary direction is. In this way, the debate takes on a strongly idealist character: its subject is not constituted by the actual tendencies in society, but by abstract theoretical models expressing the interests of well-defined social groups. It follows from the contrived character of the models that the problem of the transition from actually existing society to the desirable state is not, and cannot be, clarified. Yet, following the outcome of
the debate, decisions might be taken, the mechanism might be changed, and so the social relations might be revalued. The starting point of the proposals is not the social reality, but it is the end point or the range of impacts that is very much the social reality.

**Models of Market Socialism** In place of the arbitrary, ad hoc state interventions, and the hierarchical relations of enterprises to the state, the professional circles insist upon market regulation and the separation of the economy from the state administration. Nevertheless, the market solution itself takes on different forms. Two major trends have become distinct. The first can be referred to as *managerial socialism*; the second as *market self-management*.  

Managerial socialism emphasizes the independence of the *totality* of enterprises from the state administration, at the same time maintaining the dependency — through holding companies — of any *particular* enterprise. That is, particular enterprises would be placed under a few independent and profit-oriented holding companies which would compete with each other.

Inter-enterprise capital allocation can be achieved either through direct market channels or hierarchically, through specific redistributive institutions. There is no serious proposal to transform enterprises into joint-stock companies (under state or private ownership) or to introduce a stock exchange (a possible third sub-variety of market socialism). As these necessary conditions for market capital allocation have not yet been proposed, capital allocation could be accomplished only by a hierarchical system involving deductions and returns. The innovations to be introduced by managerial socialism would consist in making the necessary *redistribution of investment and operating funds through profit-oriented, state-owned holding companies* (instead of through direct state administration). Apart from a few exceptions, individual enterprises would be dependent upon these holding companies, which would themselves be *independent of direct state administration and would be only ruled by considerations of long-run profits*. On this basis of long-run profitability, and only on this basis, holding companies would redistribute capital from one enterprise to another; they would liquidate enterprises and
establish new ones. The external funds necessary for their functioning would be provided by profit-oriented commercial banks. (To this extent direct market capital allocation channels are built into the model.) Thus, the redistributive mechanism embodied in the 1968 model, which was based on state priorities, would be replaced by the redistributive mechanism based on market rationality. The employer-employee relations would take an open commodity exchange form, as opposed to its present latent form. The representation of workers' interests would be provided by independent trade unions (i.e., independent of both employers and the state administration). Furthermore, the interests of employers would be represented by industrial associations.

In contrast to the model offered by managerial socialism, the market self-management model would extend autonomy beyond the totality of enterprises to each enterprise, giving each one independence from the state administration and from each other. The advocates of this conception attribute the problems of economic efficiency to, first of all, permanent state intervention, and second, to workers' non-involvement in the affairs of the enterprise. As a solution they favour democratic institutions (such as workers' councils and workers' general assemblies) having wide-ranging powers and control over managers who are to be elected. In such a market self-management model, the autocratic type of management would be replaced by workers' collective management. With the introduction of self-management institutions, this model makes an attempt to eliminate hierarchical relations and to secure the social equality of immediate producers within the enterprise. Advocates of the model consider only one external condition for social equality within a production unit: the role played by external actors. They are right to say that self-management and enterprise dependence — whether upon the state or on a holding company — are incompatible. There is no room for effective self-management if instead of immediate producers it is the external actors who make decisions at the micro-economic level of production and allocation. The hierarchical relations within the enterprise can only be eliminated if hierarchical relations outside the enterprises are eliminated as well: market self-management entails the independence of each particular enterprise and not only the inde-
pendence of enterprises as a totality. Nonetheless the perspective of the model’s advocates is limited, even in an economic sense. While they are logically correct to put forward free enterprises as means for the achievement of effective self-management, one should take into consideration many other conditions of real self-management — above all, the impact of market production on social relations.

Market Self-Management and Socialism From an abstract theoretical point of view, self-management seen as lack of socially based inequality within the production unit is a major attribute of socialism. In a self-managed society the separation of activities and persons arises only because of the technical division of labour and not because of inequalities in the disposal of property. Socialism is a self-managed society in which producers dominate and manage collectively their own activity and creation. Thus the programme of self-management is that of social progress. Nevertheless, in present social practice, the so-called self-managed production units — whether in Yugoslavia or in Hungary — are more or less distanced from the conception of social relations embodied in the theoretical notion of self-management. In the name of self-management, the relations of social hierarchy are being reproduced. But why does there exist such a disharmony between the theory and the practice of self-management? Is it that the implementation is defective, or does the structure suffer from some organic defect? In essence the problem dealt with here can be reduced to the following issue: whether or not social equality within production units can be achieved under commodity production relations.

The agricultural and industrial cooperatives in Hungary are examples of enterprises that function on a self-managed basis. The chief executives of these cooperatives are elected by the membership; the institutions for collective leadership (general assembly, shop-floor councils, etc.) already exist. Although self-management usually refers to production units under state ownership, the cooperatives might be considered to be the most developed form of self-management, in the sense that collective responsibility and equality of members are established by the immediate community of ownership. Nevertheless, experience shows that neither the institutions of self-management, nor com-
mon property, suffice to ensure that these cooperatives are in fact run by the working collectivity. The self-managed institutions progressively have become empty shells, while on the other hand the internal hierarchy has been progressively reproduced. This impoverishment in content is related to the following three circumstances.

Firstly, one should stress the importance of direction coming from outside, and the dependence of elected leaders upon forces exogenous to the enterprise. This means that the regional party and state organizations, or the central supervisory authorities, have greater influence in selecting leaders than the collectivity itself. More importantly, these external actors exercise some of the property rights and the operative functions in lieu of the cooperative. From the operative market and production decisions to the shaping of the strategy, municipalities, ministries and social organizations also have their voice. Moreover, this does not have only a basis in law, but also one that is rooted in economic and political power. The most important means of such political and economic pressures: providing or refusing support for obtaining various preferences (cheap credit, subsidies, etc.); giving "forecasts" of future changes in the regulatory system; intervening under the pretext of the "general interest"; promoting or demoting leaders on non-economic grounds. Having had its range for autonomous decisions greatly narrowed, self-management is thereby limited. Decisions made from outside the enterprise cannot at the same time manifest principles of self-management.

The cooperatives' dependence on higher authorities is mediated by the subordination of elected leaders to their hierarchical superiors. At the same time the subservience of elected managers to the external actors upgrades their position vis-à-vis the working collectivity. So, the dependence upon the outside weakens self-management not only by withdrawing decision-making from the production units, but also by facilitating the hierarchization of residual decision-making rights. Pressure on management sets them, even unintentionally, against the collectivity. And, time after time, management and external bureaucratic actors form a community of interest against the workers.

Secondly, as to the residual rights within the enterprise, managerial activities and production activities are separated.
The roots of this separation can be traced back to cooperatives which originally had a mixed form of management. Within cooperatives, self-management and internal hierarchical command management were combined from the beginning. Frequently, the workshop-level collectivity receives final decisions from the top, and its autonomy is limited to the range of alternatives available to it in carrying out these decisions. The formal written rules are such that the self-management institutions have obtained fewer rights than are necessary for collective management. On the other hand, functional guidance is held on to more than necessary. Again, we cannot speak of actual self-management as long as the institutional power of self-management merely includes rights for distributing grants or improving immediate working conditions, but not enough rights for strategic management.

Thirdly, a significant portion of the written rights belonging to the self-management sphere of authority in reality slips away so that management is not able to exercise even its residual self-management rights. Gradually, ownership in this group property becomes less well-defined as some people begin to exercise more property rights than others. The majority of workers become simple employees and the lion’s share of actual management is carried out by a separated internal apparatus. The senior officials become more and more employers. In this real world, even concerning the aforementioned residual rights, the fulcrum point has been shifted progressively from the self-managed structure to the functional structure. The actual decision-making power has been pushed from the general assembly and board of direction to the president; from the workshop council to the works managers; etc. Workers are not equal partners of managers. In the present circumstances, cooperatives’ freedom for self-regulation has become the freedom of managers for the realization of their own interests. 14

The self-management institutions have only a secondary role in economic decision-making; at most, they obtain an actual role in solving workers’ day-to-day conflicts in the workplace. The group ownership has thus become less well-defined; inequalities in disposing of property and in appropriation are resurrected (or remain).
In view of this account of the present Hungarian agricultural and industrial cooperatives, the question then arises as to whether the production units of the market self-management model will suffer from the same shortcomings. Certainly in two respects they will not suffer. First, because the suggested model is market self-management, external intervention would be reduced to a minimum. According to the advocates of this model, the market is essentially free from state intervention in micro-economic decision-making. So, following the logic of nineteenth-century or Friedmannite free enterprise, the range of autonomous enterprise decisions would significantly increase. As a result, greater opportunities for self-managed decisions also become possible. Second, the sharing of power between the self-management and functional structures can be re-evaluated. Some decision-making rights could be transferred to the self-management institutions. If these rights are not even in existence, then there is obviously no hope for self-management. The realization of self-management includes changes in the legal framework. We may assume that it can be done. However, if these rights are given, then one has “only” to be able to exercise them. I will return to this.

However, it is clear to every partisan of marketization who is open-minded that each particular decision could not be taken by institutions of self-management. Self-management cannot be complete in an absolute sense; it cannot work exclusively and purely. Neither dependence of enterprises upon exogenous forces, nor the decision-making power of functional direction can be eliminated totally. To do so would be opposed to market rationality. Within large modern economic organizations, and between state and production units, the nature of the labour process generates hierarchical relations — to maintain technological discipline, plan of work, etc. Without these functions, an organization would be unable to operate successfully. It is not possible to call a general assembly to decide on the smallest day-to-day organizational problems. It would eventually discredit institutions of self-management and lead to meaningless and endless meetings and, sooner or later, to individual disinterest in the democratic process of management. However, it does not follow that all hierarchical relations are to be taken as the necessary and permanent result of the labour process and that in practice self-management is unfeasible. This view overlooks the essential
objective of self-management which is to eliminate the hierarchy linked to property relations as opposed to the hierarchy due to the labour process. That is to say, the functional hierarchy should not extend over and beyond the limits constituted by the technical aspect of the division of labour. Conceptually, self-management is a relation of production and not a phenomenon of the division of labour linked to the forces of production. Thus, equality in a socio-economic sense (relations of production) can go along with hierarchy in a technico-economic sense (forces of production) within self-managed production units. The "practical" question is of course: How can the two be separated from each other? It appears that in practice the hierarchy linked to the division of labour and equality of property and appropriation can be brought in harmony only with difficulties. In reality, these levels are tightly interwoven and the hierarchy of socio-economic nature is linked to the hierarchy of labour organization. Moreover certain phenomena allegedly belonging to the division of labour disguise power and property interests.¹⁶

In a market economy left to itself, disproportions are created from time to time; furthermore, decisions that are rational from a micro-economic point of view frequently lead to non-desirable social consequences. Also the market cannot, without delay and excessive costs, handle externalities. In a socialist market model, state intervention in micro-economic production and allocation decisions can be justified under these and similar circumstances. The challenge is to find a way to manage or limit the extent of state intervention. That is, the directors of economic policy should use their power only as needed and only to the extent that it is justified. The real danger is that the general interest and social justice will serve as excuses for unjustifiable interventions. It is hard to find institutional guarantees that would limit excessive and unjustifiable state intervention but at the same time would not make necessary power and intervention impracticable. Still, let us suppose that one has managed to elaborate a "modus vivendi." The real question comes up only now: Will there be room for self-management institutions to exercise effectively their much broader rights? Here we face not only the difficulty of implementation, but some fundamental problems of principle as well. Market self-management constitutes a connec-
tion between production for markets and production in a self-managed way. However, conflicts exist between these poles.

In a society producing for markets, the most general interest is the long-run maximization of the difference between returns and expenses. The self-managed enterprises as commodity-producer units do not have any option concerning the general strategy to be followed. Even their survival is only possible if they have a profit-maximizing and expansive nature. Their freedom consists in selecting the way of achieving this general strategy. In any particular enterprise, the wage appears objectively as a part of expenses to be minimalized, and the realized profit as the major source of further expansion. As a commodity-producing unit, the self-managed enterprise has a fundamental interest in reinvesting its profits instead of applying these funds towards workers' benefits.

Yet in the suggested model of market self-management, production units are not merely commodity producers but self-managing collectivities as well. According to the conception of the model, workers take decisions collectively and also bear the consequences of their decisions collectively. So the division of "new value" into wages appearing as part of the costs, and into profit appropriated by others, would be terminated. The objectives of a self-managing collectivity and the motivations of enterprises derived from a market orientation are undoubtedly close to each other, but overlap only partially. Workers are interested in boosting "profit," since "profit" is the source of higher "wages." However workers' interests lie in higher profit only inasmuch as profit can be converted into individual income in the short-run. Workers' interest in long-run investment returns is similarly doubtful. Generally speaking, the immediate individual goals and the long-term objectives of the enterprise are often at cross-purposes. It therefore appears that the antagonism between the produced value-surplus and the share allocated to wages cannot be excluded from the ideal typical model of self-management. We should rather speak of a new historical form of profit-wage antagonism.

Although private owners motivated by commodity production do not exist in a socialistic market model (except for small private producers), the basic contradiction between profits and wages is not solved. At most, the contradiction is transformed into
an internal one of the allegedly homogeneous collectivity. The workers distribute the results of their work among themselves, but when they determine the part of the surplus to be accumulated or consumed either their commodity-producer interests or their immediate consumer interests prevail. To the extent that the characteristic of commodity production is consequently manifested, the aspiration for profit-maximization and expansion dominates workers' aspirations for wage increases. Notwithstanding that there are no capitalists, workers still cannot appropriate the produced wealth. Following market rationality, the surplus should flow back into production — something that is alien to workers and to actual social needs. As soon as this flow-back is interrupted — for instance because workers of a given enterprise "unthinkingly" distribute too much of the profit among themselves — the given enterprise can lose its market share, fall backward in technological development, and finally even be squeezed out of the market.

It is worth repeating that choosing the general strategy, the collectivity has no freedom. The rules of commodity production appear for any particular collectivity as compelling external circumstances. In market self-management, the collectivity is the captive of an illusion: workers can subjectively decide on the fate of realized profit, but at the same time "external circumstances" force market rationality upon them and this will, as a general rule, lead to the reinvestment of profit. In the expectation of survival and higher income tomorrow, they must permanently accumulate capital. Yet in reality the rules of accumulation do not adjust themselves to future needs of people, but to the opportunities of producing further profit; profit as immediate purpose is henceforward inserted permanently between production and consumption. We can see here how any particular capitalist is an economic actor of secondary importance. He or she does not act on the basis of free subjective will either, but acts subject to business constraints — as "personified capital." In an ideal typical self-management system, commodity fetishism becomes more direct and visible: there is no capitalist who would be "responsible" for workers' inability to enjoy the results of their work. No person is responsible for taking away what should go to workers. Workers renounce of their own "free" will what is theirs. They collectively personify capital.
With the knowledge of the proposals, it appears that in the market and self-management combination suggested for Hungary the market would be the dominant pole. Institutions of self-management would be utilized to perform the functions of market rationality as opposed to imposing limitations on or going beyond market rationality. Thus, self-management is not a counterpoint of the market, or a realization of objectives beyond the market, or the achievement of social justice and rationality; it is an aid or a technique in support of the market. In which case, then, self-management necessarily loses its socialist content. Workers can participate in decision-making, yet all that they can manage is the production of profit.

Socialism, I believe, has more to it than simply the criterion of whether or not workers can share in decision-making. This is an extremely important criterion, but one should not overlook the objectives of these decisions. The proposed model does not go beyond the purpose of unit or enterprise profitability, and indeed this purpose forms the core of the model. The basic objective of this type of model is the best utilization of resources at the micro-level of the unit (living and dead labour) as opposed to the best utilization of the totality of resources at the macro-level. Thus the model misses completely the macro-level perspective. However this is the other key point. If collective management is the artery of socialism, then the macro-level perspective is the heart. Therefore, I would not regard this model as the appropriate form for a socialist economy, even if extensive workers' participation were attained.

But can we really expect workers' participation in management? In accordance with market rationality, self-management has received a new content, which at the same time tends to render self-management unnecessary. Workers can have their share in management, but profit production does not really need the voice of the workers in decision-making. This is the bitter irony of the market self-management model. If the decisions are basically profit-oriented, workers' participation in management does not have a real economic foundation. Functional managers are able by themselves to calculate the bottom line. Participation in decisions concerning the best reinvestment of profit and market strategy seem to be alien to workers. Because of this, acquired skills and information are useless personal investments.
for workers to make. In conditions of market production, we can rather expect that workers will become unconcerned with the matters of management. Involuntarily they make easier the possession of strategic power positions by individuals.

The managers benefit from monopolizing decision-making (material advantages, high reputation, power) while workers have no real socio-economic interest in controlling managers (as long as they do not appropriate too much profit for themselves). In this way, democratic forums, instead of managing enterprise matters, can become institutions of enforcement of day-to-day employee interests; under the name of self-management, spontaneously and without state intervention, internal hierarchical relations can be reproduced. I think that the fragmentation of Hungarian cooperatives into employers and employees can be attributed in to a significant degree to workers’ economic disinterest in management — to the tensions that exist between market and (market-oriented) self-management. One can anticipate that this fragmentation will occur in the case of self-managed units in the suggested model as well.

It appears that workers’ participation in profit-oriented strategic decisions cannot be deduced theoretically either from profit-production or socialist objectives. The first objective undermines workers’ participation, or at least makes it unnecessary; the second questions the goal of market-orientation. Consequently the model suffers from an inherent lack of equilibrium and it can only exist in reality with the predominance of one of its constituent poles. The subordinated side tends to metamorphose, degenerate and atrophy. In the market self-management model, self-management has obtained a new context insofar as it serves the function of the market, but at the same time it has become atrophied inasmuch as the market has no need for self-management. These are the major tendencies inherent in the model.

In spite of the model’s logic, however, workers’ participation in management can be brought in from outside. In spite of the objective or structural tendency which leads to the emptiness of self-management institutions, conscious and permanent subjective efforts can offset the inherent tendency and can maintain self-management without at the same time bringing into question the essential market character of the general mechanism. The will of the masses and/or the will of the state, (i.e., political
forces) can bring about certain results. We can expect effective workers' participation in management, particularly in small-sized enterprises, since in these cases management activity is less specialized, and events are more visible and readily associated with the actions of specific individuals.

In conclusion, we can say that since market self-management intends to offer workers power in decision-making (both ideally and practically), it goes beyond forms such as managerial socialism in which workers' participation is missing. However, one should not overstate this. Workers, instead of being only small cog-wheels, become bigger ones in a market self-management machine, which is neither run by them nor run in their interests.

Managerial Socialism and Socialism  Self-management means social equality — the elimination of hierarchy beyond what is inherent in the division of labour, or in other words, workers' collective control over the production at a macro-level, which would constitute the achievement of socialism. However, as we saw earlier, social relations of commodity production tend to reproduce hierarchy and a limited micro-economic perspective. From the viewpoint of the normative theory, there is a basic contradiction between commodity production and socialism, and similarly between commodity production and self-management. I fear that this contradiction would be even more tangible in the model of managerial socialism.

Under the circumstances of managerial socialism, immediate producers freely dispose of what they have: their labour power. They are also commodity owners; they hold their labour power and they enter into relations with enterprises disposing the means of production as such. They do not act under orders, but on the basis of a rationality tending towards the best use of their labour force. To act in this way, they have to be free in their quality of citizen. The freedom of their decisions then would be limited only by the economic constraint of looking for a job and the extent of their income. Their freedom out of the workplace would be in proportion to their income; their income would be in proportion to their marketability. And this measure would be common for everyone. In this respect managerial socialism is the social relation of formal equality based on de jure collective ownership.
Nevertheless, formal equality in itself is not identical with socialism. Although formal equality precludes direct personal dependence (outside of the factory), it eliminates only a historically determined form of dependence, and not the dependence itself. The market form of social appreciation of work, as intermediate purpose, is still inserted between production and consumption. Notwithstanding, income production and satisfaction of needs coincide only partially with each other; the production aims totally at the market. In spite of, or rather because of, *de jure* collective property, the micro-economic perspective prevails over the macro-economic one. The model of managerial socialism does not advance further socialization or collective management of property, but rather advances its disintegration. Collective ownership reduces itself to a legal cover under which managers’ interests dominate collective ones. There is no attempt, not even at the factory level, to establish a link between workers and the ownership of the means of production. The ownership role of workers here is negligibly small, and in any case it is less than it is in the market self-management model. Workers are excluded from managing production activity; their socio-economic role is reduced to the implementation of decisions. In fact, their basic social situation would not differ significantly from that of workers of privately owned companies. In this model they cannot dominate themselves or their creations; they merely serve purposes that lie outside their interests. With managerial socialism the relations of direct personal dependence are replaced by thing-mediated dependence based upon profit-oriented commodity production. We can conclude that managerial socialism is nothing but one form of social hierarchy and alienation based on both legally collective ownership and formal equality.

However little the illusional equality of both types of market socialism means (as seen from the heights of normative theory), both types seem to produce liveable and tolerable social relations for the majority of the society. What can be regarded as weakness from the point of view of normative theory can be a virtue from that of real historical dynamics: markets imply certain freedoms subject to the limits of income and the economic constraint of looking for employment. Bureaucratic arbitrariness, disinterest in productive work, corruption, etc., should be absent or at least considerably reduced in both forms of a market so-
socialist society. In that limited sense, market-oriented reform proposals may carry progressive content.

No matter how much we are dissatisfied with both market socialism and the status quo, the present historical choice — in the absence of other real alternatives — is still between these imperfect models. Society faces two types of hierarchy, and the choice should be the lesser of the two evils. But there is no alternative that questions the hierarchy as such and which aims at real social equality. This should remind us that Marxist social scientists still fall far short of offering a "truly" socialist alternative for change. Perhaps this is the most unfortunate feature of the Hungarian economic reform debates of the early eighties. The aforesaid could then be reduced to this: both in theory and in practice the society based on real social equality and self-government remains to be achieved. For the time being, one has to live with dependence upon either the state or the market.

Notes

This paper benefited from extensive discussion I had with colleagues during my stay in Canada. An earlier version of this paper was presented in Guelph at the Learned Societies Conference in June 1984. I gratefully acknowledge the thoughtful comments of Michael Lebowitz and George Warskett and the support of the School of Public Administration, Carleton University.

1. In this paper I used extensively (and polemized indirectly with) the works of L. Antal, T. Bauer, L. Lengyel, and M. Tardos, authors who can perhaps be regarded as the most well-known partisans of a radical market reform in Hungary. Astonishingly close views to theirs can be read in part five of A. Nove's book, Economics of Feasible Socialism (London 1983).

2. This paper deal with the debate over the present Hungarian economic system and its future. I will not touch upon the experience of other countries, although of course a number of ideas appearing here, especially those on market self-management, could be related to the Yugoslavian way of building socialism.

3. The 1968 reform conception and its implementation represent a compromise. Put more simply, it was a compromise between the advocates of traditional central planning and market. It is beyond the scope of this essay to outline in greater detail the different initial positions. In any way, as we shall see, the characteristics of the compromise are apparent in the actual operation of the economy.

4. For further details about the redistributive economy, see Szelényi, "The Intelligentsia in the Class Structure of State-Socialist Societies," American Journal of Sociology 88 (supplement). The hierarchical dependence is elaborated more
in M. Tardos, “Program a gazdasagiranyitas és szervezeti rendszer tovább-
fejlesztésére,” Közgazdasagi Szemle (June 1982) and in J. Kornai, Economics of
Shortage (Amsterdam 1980).

5. This point has been taken from L. Antal, “Gondolatok a mechaniza-
musreform továbbfejlesztéséről,” Gazdasag (March 1982), and L. Antal,
“Gondolatok gazdasagi mechanizmusunk reformjarol,” Medvetane (January
1982).

6. Enterprise objectives are elaborated more in Kornai, Economics of Shortage (see
n. 4 above); and in Antal, “Gondolatok gazdasagi” (see n. 5 above).

7. Enterprises do not only adapt themselves to regulators, but also bargain with
them. They put pressure on central authorities to change the regulators, or at
least to obtain particular exemptions. This is discussed in Antal, “Gondolatok a
mechanizmusreform” (see n. 5 above); and idem, “Gondolatok gazdasagi.”

8. For further description of the 1968 reforms, see P. Bihari “Economic Reform
in Hungary: Toward a Market Economy?” Canadian Dimension (May-June
1985).

9. The twin nature of the Hungarian economy and the necessity for the reform
of the reform is discussed by T. Bauer, “A masodik gazdasagi reform és a
tulajdonviszonyok,” Mozgo Vilag (November 1982).

10. A great number of the actual proposals urge a mixture of at least these pure
models. Indeed, most of them would even maintain the direct state adminis-
tration direction form in certain segments of the society (CMEA relations,
some key sectors, production related to national defence, health, etc.). The
proposals favour a pluralistic socialist market economy which can be traced back
to these two pure models, together with a subordinate role for both state-
administered and privately owned production units.

11. For further details see Tardos, “Program a gazdasagiranyitas.” See n. 4 above.

12. Economic arguments for market self-management can be found in Bauer, “A
masodik gazdasagi” (see n. 9 above); and in L. Lengyel, “A Vezetők eloszlása”
(manuscript).

13. I shall attempt to address these questions by relying upon both the practical
experience of Hungarian self-managed production units and some theoretical
considerations. I will not touch upon a number of significant economic and
political problems of marketization (for example capital allocation, the cre-
atuion of new enterprises, implications for the political system, consequences for
the “leading role of the party,” etc.). The purpose here is not to discuss
whether or not any particular commodity production unit could function in a
self-managed way, but to assess the social relations within a typical enterprise
of the market self-management model.

14. The emptiness of the institutions of self-management is described in Gy
Tellér, “Munkahelyi tanacskozas az ipari szövetkezetekben,” SZKI tanulmány
15. A. Sinkovits also directs attention to this. See A. Sinkovits, “Szocialista vallalattipolgia, gazdasagiranyitas,” Köszgazdasagi Szemle (December 1981).

16. The particular state intervention has always legitimated itself by alleging that the state knew what the micro-level did not know. This may be so in many cases; however, in many other cases it is only a subjective feeling — a desire, maybe a mask — since in reality the central offices do not always know either what the micro-level does not know.