

ANTHONY DE JASAY

THE RETURN TO EUROPE

Much as the former Soviet satellite countries of Central and Eastern Europe differ from each other, their recent history and present situation is dominated by a number of common features. I propose to discuss these with special reference to Hungary.

All are freshly emancipated from almost half a century of very close, very tight tutelage. This tutelage, inspired by a mixture of socialist ideology and Russian imperial pretension, has, in some respects, crippled them. Their civil society, lopsided and incomplete as it may have been to begin with, was virtually emptied of substance; the institutions, behaviour models and characters traits necessary for political democracy and a decentralised, free-market economy were to a considerable extent “bred out” and “educated out” of it. Directly or indirectly, every breadwinner became a state employee, with consequences that should have been easy to predict. Where non actually crippled, the development of these countries was forced into unnatural, contrived, historically and culturally ill-fitting forms. Collectivised agriculture and the pattern of industrial investment are the obvious examples, though others could be found in the fields of art, education, jurisprudence and so forth. Whether by good luck or good management, Hungary was perhaps not so gravely deformed by these influences as some of her neighbours, and began regaining a small measure of autonomy earlier than most. But the difference, if there is one, is only of degree.

The other common feature dominating the contemporary scene in these countries, is the eager use of their newly recovered capacity for self-determination. Each has done a great deal, since 1989 or so, to break out of the alien forms imposed by Soviet tutelage. Each is busily legislating and organising so as to rejoin, as rapidly as can be, the European mainstream, — though their respective conceptions of the nature of the mainstream, and where it is really headed, may differ a little. In Hungary, there is a wide consensus that “Europe” minimally implies electoral democracy, parliamentary government, an independent judiciary, and free enterprise based on the private property of capital. It is probably fair to say, on the other hand, that there is no broad agreement in Hungary, and still less among its neighbours, about the proper limits of government and the role the state ought, or ought not, to play.

The period of transition from tutelage to self-determination has been a period of crisis; to some extent, it still is. The crisis is the product of two factors. The first is the collapse of the centralised command-and-control system that used to direct both political and economic life. Based on the Führerprinzip of the commu-

nist party, it broke up when the party lost its will and its capacity to impose it. Alternative mechanisms of democratic control and free-market competition obviously do not evolve overnight, and will presumably take many years fully to emerge. In the meantime, matters do not run as well as they might, and it is a minor miracle that they run as well as they do. The second factor of crisis, largely limited to Poland and Hungary, is that they have both been led to the brink of bankruptcy in the 1970's and 80s, and must now start working their way back to solvency. The policy associated with the name of Gierek in Poland, János Kádár in Hungary had been to seek reconciliation with the population by allowing it a relatively high level of consumption, at all events higher than their inefficient economies could sustain. This necessitated continuous massive borrowing from the West. Polish debt has thus reached about \$1600 per capita, Hungarian debt over \$2000. Relative to the national product, these are among the highest debts in the world. Poland has obtained partial debt forgiveness, while Hungary is promising to honour all obligations incurred by the socialist regime. Both courses have advantages and drawbacks. Hungary debt's service will be heavier. However, both countries start off with amortgaged future, and their access to foreign capital will remain impaired to some extent.

The crisis of transition, however grave some of its elements may be, is essentially temporary. It is intrinsically capable of being overcome. Western European encouragement, advice and material aid are intended to help solve it. But such help, for all the public attention it receives, is of minor importance, just as the Marshall Plan was of quantitatively minor importance in assisting the recovery of Western Europe after World War II. The major reason for being confident of the former Soviet-dependencies overcoming their post-socialist crisis is that in all fields of endeavour from politics and culture to industry, these countries have been and still are performing very much below their potential. Their human resources are still under-used or misused. A gradual lessening of this misuse appears to have already started (growing unemployment is, paradoxically, a symptom that corrective processes are at work) and can be expected to continue despite the threat of populist palliatives. The moral and material reserves it is releasing are almost certainly sufficient to keep these countries afloat while the institutional transition is accomplished. The legislative framework for political democracy and a private enterprise economy is being fairly rapidly constructed. In Hungary, it is in fact largely in place and by end-1992 should be virtually complete.

Contrary to the widely accepted view that the major problem is short-term and consists in the great difficulty of making the systemic change from single-party dictatorship and a command economy, to electoral democracy and free markets, the present writer would argue that the greatest problem facing these countries is long-term. It is not primarily one of changing their institutions to conform to the modern European pattern. Such change, though no doubt complex and arduous to accomplish, is feasible and it is in a fair way of being carried out. What is really problematic is not a matter of institutional form — constitutions, legal systems, rights and obligations, procedures — but of the substance that fills these forms. The case of Hungary will help to make the difference quite clear.

In the closing decade of the socialist system, about two-thirds of Hungarian national income was spent by the state (more precisely by the central government and the local authorities). The current percentage is still 64 per cent, and there is no sign that 1992 and 1993 will bring any significant reduction. The Western European equivalent hovers between 35 and 50 per cent.

The corollary is that by European yardsticks, an abnormally high proportion of Hungarian society is economically dependent on the state, and despite the passing of socialism, the degree of dependence persists. Not only are too many Hungarians wage- and salary' earners; too many of them are employees (or pensioners) of the state, which holds both economic and political power in its hands. If civil society presupposes a certain independence of citizens and their interests from the political authority, decentralized ownership of the country's stock of capital, and a network of direct economic and social relations bypassing the state, there is properly speaking no civil society in Hungary; and while the country has peasants, workers and "intellectuals", it has no real classes.

One is led to conclude that much of the democratic and free-enterprise framework under construction is so far mainly a matter of institutional form, with little social and economic substance to fill it. In its functioning, the system can at best stimulate the genuine article.

This is conspicuously true of the "market", where directly or indirectly state-owned enterprises face each other as buyers and sellers, borrowers and lenders. They conduct business in pursuit of incentives and goals, and under constraint, that are totally different from those motivating genuinely private enterprises. Consequently, the market prices and products that results from their interactions, though "freely" determined rather than centrally fixed, are not "efficient" in the technical sense in which economic science employs this term, and which signifies that the allocation of resources is, at least in a narrow sense, optimal.

Basically, none of this can change as long as the state, so to speak, owns the country; and everything could change if the country were owned directly by its citizens. The long-term solution to the conundrum of creating a civil society where none exists is, to put it simply, the privatisation of state-owned assets. Their scattered, randomly spread ownership can serve as the economic base of what should, in due course, become a robust, independent middle class.

Privatisation meets a variety of political, social and financial obstacles; their relative weight differs from country to country. East Germany is a special case by virtue of the responsibilities assumed, almost regardless of cost and ordinary business considerations, by its rich elder sister, the Federal Republic. (In 1991, about 60 per cent of East Germany's national income was derived from various unilateral transfers received from the Federal Republic. This extraordinary figure says eloquently that reform of East Germany's structure is not constrained by the availability of her own resources). Poland, Czechoslovakia and Hungary have all made a start with privatisation, and Hungary has advanced a little further than her neighbours in this respect. But outside retail trade, building and road transport, progress is still disappointingly slow in each country. Time and space do not permit discussion of the reasons. In Poland and Czechoslovakia, there is at least a

declared intention to accelerate the process by arranging free transfers of state property to the population (via voucher to purchase shares in formerly state-owned enterprises in Poland).

The Hungarian government has considered and deliberately rejected the method of privatising by free transfers, resisting proposals to hand over even partial ownership of state firms to the citizenry at large or to their employees. In its efforts to privatize, its declared policy (and, by and large, its practice) is to sell each enterprise at the best possible price, and to vest its control in a single owner holding at least a relative majority. Given that the mass of state assets to be sold dwarfs the indigenous private capital available in Hungary, the practical consequence of this policy is that the new controlling owners are almost exclusively foreign (notably American, German, Austrian, French, Japanese and British, in that order) corporate entities. Hungarian buyers of state concerns are negligibly few; indigenous business, lacking funds, seeks outlets requiring little capital.

It may be noted that Hungarian public opinion has so far been singularly tolerant of the sale to foreign corporations of the few industrial “crown jewels” the country can be said to possess after four decades of neglect and misdirected investment.

Selling nationalized firms to foreign corporations is doubtless the right policy if the prime objective is an immediate improvement in management, technology transfer, additional investment and perhaps also better access to foreign markets — not to speak of the foreign currency flowing into the state’s coffers in exchange for “its” property. It is no less clear, however, that this policy profoundly and durably prejudices the future social structure of the country. Pushed to its logical conclusion, it means that no new property-owning middle class will emerge. A few hundred thousand state employees become employees of the local subsidiaries of distant foreign corporations, but such a change, salutary as it may be in itself, is quite insufficient to create the conditions for a well-balanced, diversified civil society. If privatisation amounts to no more than this, the structural defect, by which the societies of East-Central Europe, including Hungary, have been handicapped throughout their modern history, and which the era of Soviet tutelage has enormously magnified, is likely to persist for a long time.

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