

Preface

The collapse of socialist systems and the creation of new socio-economic institutions in Central and Eastern Europe at the end of the twentieth century presented challenges to scholars and researchers not only in the field of economics, but in all the social sciences invested in the study of the collapse and rebirth of major social systems. The relevance on the level of theory and practice of the socialist systems in Central and Eastern Europe is made even more pressing given the fact that, in China, there exists a country which is currently on a path of gradual transition to a highly developed market economy without having under gone any change in its dictatorial political system. Is China's path different from the one followed by the Soviet Union and Central and Eastern European countries, or will it be essentially the same?

The collapse of an old social system does not automatically create a new one. However, Western researchers and advisers belonging to universities and international research institutes proposed a universal "transition strategy" for new economic systems without analyzing actual situations and facts the individual countries undergoing these transformations. They urged the rapid construction of a capitalist economy through the privatization of state owned enterprises without consideration of historical and social conditions. Economists sought propositions which could be universally applied to system transformation (transition) in all the countries involved. But theoretical truths that can be applied to different and differing countries are at times less true in practice. If the approach itself is wrong, the conclusions reached have no validity.

So-called mainstream economists believed that the privatization of state enterprises could lead to a shift from a "planned economy" to a "market economy". Economic advisors at the IMF and the EBRD also believed that the coupon privatization in the Czech Republic would be the best and the most rapid solution to privatization, and they strongly recommended the adoption of coupon (voucher) privatization for almost all the countries in the former Eastern Bloc, with the exception of Hungary. They praised the strategy of the Czech Republic as miracle and a model of radical privatization, and they criticized the Hungarian approach of waiting for investment from outside as overly slow and gradual. However, this coupon strategy did not work if the goal was to create companies which could subsist or thrive in a market economy, because the basic conditions for privatization did not exist.

The countries undergoing this transformation had no capital accumulation and no capital market. There were no enterprises with the adequate technology to compete on the international market, and there were no corporate managers with direct experience of market competition abroad. Workers also had never experienced the strict work ethic of a market economy. In the absence of these preconditions, the privatization

envisioned for these emerging capitalist countries, a privatization which was intended to transform them relatively quickly into advanced capitalist countries, was never realized. These facts clearly show that proposals that ignore socio-economic conditions never bring fruitful results.

The absence of the necessary socio-economic conditions for effective privatization can be dubbed the “Aporia” (unsolvable) of system transformation. How can something be created out of nothing? Most socialist industrial enterprises had no ways to privatize and simply had to face their fate: liquidation and extinction. The coupon privatization of the state companies never went beyond the “Monopoly game” in which companies are traded virtually, where a redistribution of state assets through coupon (voucher) privatization took place. The redistribution of state assets was in fact a type of theft of public assets among those who had insider information concerning assets in the control of the state and communist party, or in other words, young communist leaders, high-ranking government and party bureaucrats, and intelligence agents. Those who succeeded in stealing public assets could become the newly emerging businessmen. The redistribution of the state and party assets was the first process of capital accumulation in the system transformation.

Whether one is speaking of economic or political systems or social ethics and norms, the maturity of a society cannot exceed the level of that society at the given stage of development. In Soviet and Central and Eastern European societies, where political dictatorships had been in place for a long time, even if the communist dictatorships had collapsed, the lowest level of parliamentary politics could not be automatically created. The longer dictatorship had been in power, the less chance of establishing a republic system of politics, because there was no condition for democratic political power to emerge as a substitute for the old system of power and exert influences on people. Therefore, the emergence of a pseudo-dictatorship led by old political forces has been observed in many countries even after the collapse of the communist party.

China merits special consideration in this respect. On one hand, the one-party dictatorship of the Communist Party continues to be unchanged. On the other hand, the economic system is clearly on the road to a type of state capitalist economy. How can we understand the gradual progression of the economic system under an unchanging political system?

A political dictatorship can both hinder and promote the development of market economies. In the Soviet Union and Central and Eastern Europe, the market economy was liquidated with the rise of the communist regimes, but in China, the market economy was never been entirely destroyed. The fact that the buds of the market economy were never completely nipped, in contrast with the Soviet Union and Central and Eastern Europe, is what makes the current market economy in China possible. Only by unleashing the active power of the overwhelming population of the Chinese people can the government save the people from starvation and rebuild the national economy. Chinese political leaders are definitely convinced that they cannot achieve the rebuilding of national economy without developing market economy. This is not an ideological position. It is, rather, a very pragmatic stance on the part of the state leaders. In

the future, the promotion of a market economy in China may pose a contradiction or challenge to the maintenance of the dictatorship of the communist party.

In this manner, the study of the transformation (transition) of socio-economic systems must rest on an overall analysis of a socio-economic change of society. This requires careful analysis of intermittency and continuity through social changes. What has changed and what has remained unchanged since the beginning of the transformation? How different are the system changes between Russia and China? By analyzing the many deadlocks which have emerged during the processes of system transformation, one can perhaps capture the full extent of social change. We should not limit ourselves, in our thinking, to the notion that the privatization of state enterprises creates capitalist enterprises or the disappearance of the communist dictatorship automatically creates a democratic parliament. These assertions are not analyses, they are merely armchair suppositions. Our analysis should be based on studies of facts and realities in the various socio-economic conditions of the societies in each country involved.

I was posted to the Embassy of Japan in Hungary in the summer of 1988 as an economic adviser in the Ministry of Foreign Affairs. Hungarian society began to change in the early 1980s, and the internal conflicts in the communist party (MSZMP: Magyar Szocialista Munkáspárt, Hungarian Socialist Workers' Party) intensified. In the fall of 1988, the Central Committee of the MSZMP was embroiled in open conflict between conservatives and the reformists. This struggle finally led to the dissolution of the party one year later (November 1989).

In 1989, Central and Eastern European societies entered a period of drastic change. In May, tourists from East Germany began staying in various parts of Budapest, and churches were filled with "East German refugees". This was the force that led to the opening of the Austro-Hungarian border in early September, the fall of the Berlin Wall in November, and the execution of the Romanian president Nicolae Ceaușescu in December. Thus, the entire world of Central and Eastern Europe collapsed. I described this historic change in articles published in a Japanese periodical entitled *Economic Review* (*Keizai Hyoron*, July 1989 – March 1990), and these articles were collected and published in an edited form in a book entitled *History of Hungarian Reforms* (*Hangari Kaikakusi* [Tokyo: Nihon Hyoron Publisher, 1990]).

In the summer of 1990, when my appointment as economic adviser ended, I returned to the Hosei University, Tokyo. However, given the historic change that was taking place in Central and Eastern Europe, I could not resist the temptation to continue bearing witness to history in the making, and in the end, I resigned from my position at the university and returned to work as a research fellow at Nomura Research Institute in Budapest, when the Nomura Securities Group had just opened an investment bank in Hungary.

In 1994, I published a book entitled *Economics of System Transformation* (*Taisei Tenkan no Keizaigaku* [Tokyo: Shinseisha Publisher, 1994]) as one volume in the series of the new contemporary library of economics. I was asked to write a book on socialist economies before I left for Hungary in 1988. However, the world changed dramatically, and the title was changed from the original "Political Economy of Socialism" to "Economics of System Transformation". Thus, I fulfilled a promise with a delay of six years.

The economic crisis in Russia in 1998 led to the beginning of a decline in Nomura's business in Central and Eastern Europe. I therefore moved to a Hungarian subsidiary established by the Tateyama Kagaku Group (Toyama Prefecture, Japan) in 2001. The Tateyama Kagaku Group is a group of companies which focuses on manufacturing industries, and I worked in collaboration with the Budapest University of Technology to find the best students and innovations in Hungary. I then became more involved with engineers and physicists than with economists.

I happened to find a biography of Hungarian geniuses that was compiled by Professor György Marx in early 2000. I edited and translated the book into Japanese, and it was published under the title *Legend of the Aliens (Isejinn Densetsu* [Tokyo: Nihon Hyoron Publisher, 2001]). Professor Marx was an atomic physicist and an internationally known physics pedagogue.

I also met Professor András Szász, who discovered a new method of tumor therapy, and together, he and I published a book entitled *Oncothermia* (oncological hyperthermia) in Japanese (*Onkosamia* [Tokyo: Nippon Hyoron Publisher, 2012]). Although the subject matter does not belong to my field of expertise, my interactions with engineers and physicists expanded my vision and knowledge.

In the 1980s, I introduced Hungarian economist János Kornai's analyses of socialist economies to Japan. In 1983, I invited Kornai to Hosei University to hold lectures and seminars, and I drew on these lectures and seminars and edited and translated three collections of Kornai's analyses: *The Economics of Anti-Equilibrium and Shortage* (Tokyo: Nippon Hyoron Publisher, 1983), *The Political Economy of "Shortage"* (Tokyo: Iwanami Publisher, 1984), and *The Possibility of Economic Reform* (Tokyo: Iwanami Publisher, 1986). The stimulus of Kornai's work was great. However, after the system transformation, I stopped translating Kornai's works, because his analyses of the processes of transformation were not as powerful as his earlier analyses of the socialist regime.

However, when Kornai's autobiography was published in 2005, Kornai asked me about the possibility of a Japanese translation. After giving the book a hasty read, I was convinced that it was an important book on Kornai's life and theoretical work. I worked on the translation for roughly six months, and the book was then published in Japanese as *Kornai Yanos Jiden* (Tokyo: Nihon Hyoron Publisher, 2006). It met with tremendous interest in Japan. The four largest national newspapers and economic magazines printed book reviews, including a long review by Professor Masahiko Aoki of Stanford University in the newspaper *NIKKEI*.

In 2006, I began writing essays in Hungarian on the political and social situation of Hungary, and I also contribute to the periodical *Élet és Irodalom* (ÉS). These essays were collected and published as a book entitled *Változás és örökség* (Change and Legacy) (Budapest: Balassi Kiadó, 2009). My Japanese book *The Political Economy of Post-Socialism (Post Shakaishugi no Seiji-Keizaigaku* [Tokyo: Nihon Hyoronsha, 2010]) is an extended Japanese version of the Hungarian book. A second edition of the Hungarian book was published with additions from the Japanese version. The title remained the same, but a subtitle was added: "A kincstári gazdaság csapdájában" (The Trap of the Treasurized Economy [Budapest: Balassi Kiadó, 2014]).

The present book is a collection of analyses of the system transformation to date and various analyses of the social-economic changes which have taken place over the course of the past thirty years in Central and Eastern Europe. As noted above, my first study of the reforms in Hungary was published in 1990, a theoretical analysis of the transformation was then published in 1994, and a study of two decades of social and economic transformation was published in 2010. Thus, I have decided to contribute to the study of thirty years of system transformation in Central and Eastern Europe as my final work. Although I have cited some passages from my earlier works, the present book was written as a new contribution from the outset. Throughout the book, I have tried to offer concrete and factual analyses without ever relying on the models and analyses of others. My aim is to obtain generalizable propositions through analyses of facts. The significance of my approach is described in detail in Chapter 1.

For many years, economic analysis has been little more than tasteless and abstract model analysis. Rather than offering analyses of the real economy and society, it merely parades clever ideas and armchair models on the world, as if economists could see the world better than anyone from university laboratories and from Washington, New York, or London. This strikes me as the arrogant imperialism of mainstream economists. This type of deductive approach has become very popular in contemporary economics, because many economists do not have access to the actual facts of the socio-economic situations in given countries or regions. They therefore seek general propositions which purports to explain the mechanisms of the world. Economists tend to think that they can understand national economies by making abstract models like in physics. Mathematical economists in particular tend to believe that a mathematical model can further an understanding of the world which will be universal in its relevance and applicability, like the understandings offered by physicists. However, most mathematical models are mere toy models of applied mathematics, not economics. This is the “trap” into which those who study a subject far from the field fall. It is a fatal misunderstanding to think and believe that we can analyze the truth of the economy and society by “inventing models” without studying real economy and society. Many economists do not understand the essential difference between economics (social science) and physics (natural science), and they prefer simply to think that mathematical models will enable us to arrive at a universal understanding of the economic world.

This type of deductive approach is similar to that of a kind of Marxism in the sense that both are based on idealism. Many abstract models are built to explain problems, and articles are full of models invented by researchers, and furthermore the mere introduction of a model becomes an independent article. This is exactly what Prof. Shigeto Tsuru¹ ironically criticized as the pedantic tendency of economics. He thought

¹ Professor Shigeto Tsuru was a classmate with Paul Samuelson and a good friend of Paul Sweezy at Harvard University. He became the first minister of the Planning Agency of the Japanese government immediately after World War II and then served as the president of the Institute for Economic Research at Hitotsubashi University. He was the rector of Hitotsubashi University from 1972 to 1975, when I served as chairman of the community of graduate students at the university.

that economic science (the science of economies) has degenerated into “economics of economics”, i.e., an economics of economic theories and models. In fact, many economists produce articles by introducing models and using established theories, not by analyzing real economies. Has not the analysis of the so-called “economics of transition” fallen into this kind of “pedantic trap”? In order to further an understanding and, hopefully, adoption of a more suitable approach and method of socio-economic analysis, the present book is written maximally based on facts and with the criticism of the “economics of transition” in mind.

The present book consists of the following chapters.

Chapter 1: “Methodology of System Transformation”; Chapter 2: “Social Philosophy of System Transformation”; Chapter 3: “The Economics of System Transformation”; Chapter 4: “The Economics of Post-Socialism”; Chapter 5: “The Sociology of System Transformation”; Chapter 6: “The Politics of System Transformation”; Chapter 7: “Post-Socialism and Populism”; Chapter 8: “Historical Science of System Transformation”; Chapter 9: “General Summary of Twentieth-Century Socialism”.

Chapter 8 offers an understanding of the origins, development and collapse of East European Socialism with a focus on Hungary as a typical example. The culmination of this historical analysis comes with a discussion of the 1956 uprising. By focusing on the incident, I analyze the historical process that led to the uprising and its later consequences. Since the collapse of the socialist system, new documents, testimonies, and records have been released on the 1956 uprising, we can reexamine the historical formation of the so-called Peoples’ Democratic Revolution in Central and Eastern Europe after World War II. Discussions of the Executive Committee of the Soviet Communist Party during the Hungarian uprising have also been made accessible. By using these materials, we can gain new insights into the event. The numerous facts described in Chapter 8 are not yet known widely. Although the task should be left to historians, I venture to undertake it because few researchers have attempted to tackle (or seem likely in the near future to tackle) this task in Japan.

I have been living and working in Hungary for more than thirty years. I also spent twenty-two months in Hungary in 1978–1980. Thus, I have spent more than thirty-three years in Hungary. There is as big a difference in pursuing analytical work on Hungary in Hungary and pursuing analytical work on Hungary in faraway Japan as there is between heaven and earth. I am convinced that, because I took advantage of my geographical location, my analyses and what I have written about my experiences will be a useful contribution to understandings of the system transformation.

In retrospect, I happened to have an opportunity to travel through the Soviet Union and the Eastern European countries in 1968. By chance, I got a student summer job as an English interpreter for a large Japanese delegation to the Soviet Union, Bulgaria, and Romania. At that time, as a university student, I did not have any interest in socialist countries. I knew that there had been an enthusiastic debate on economic reform and the possibility of a revival of capitalism in the Soviet Union, and there was also a political movement in Czechoslovakia. However, on the day when the ship from Nakhodka arrived off the coast of Niigata, the Soviet army invaded Czechoslovakia. I vividly remember listening to the news on the ship radio.

Ten years later, I was given a scholarship by the Hungarian government to study in Budapest, and again, I did not particularly want to be in Hungary. The research and educational environment at the Hosei University, where I had begun to work, was so poor as a result of a violent student movement that I simply wanted to study abroad quietly as soon as possible. One of my teachers, Professor Yoshimasa Kurabayashi² at the Institute for Economic Research at Hitotsubashi University, recommended that I consider studying the national accounting system in Hungary. Professor Kurabayashi wrote some introducing letters to experts at the Central Statistical Office. I was assigned to the Department of National Economic Planning at the Karl Marx University of Economics in Budapest. Which produced specialists in what is known as the “planned economy”. Miklós Németh, who became prime minister during the system transformation, had belonged to this group of specialists. Németh is one year old younger than I am, but he had already moved to the Institute of National Planning Office when I began to study at the department.

In 1988, ten years after this incidental study excursion to Hungary, I was given the opportunity again to be posted to Hungary as an economic adviser to the Embassy of Japan in Budapest. I began to realize that periodical trips to Eastern Europe roughly every ten years were part of my fate. I have done my best to take advantage of the opportunity given to me by fate, and I have contributed to the study of system transformation with insights and analyses which would have been impossible from faraway Japan. This has been my mission as someone who happened to be in Central and Eastern Europe when the socialist system collapsed and the reconstruction of society began.

Finally, I would like to write some words about the cover illustration. It was made by János Kass (1927–2010), a famous Hungarian illustrator and graphic artist. When I visited Kornai’s home in Budapest. I found Kass’s drawings on the wall under the theme of “The Economics of Shortage”. I decided to use these drawings for the Japanese translation of Kornai’s books. Since then, I have also used Kass’s illustrations in my own publications. The present book is the English translation of my Japanese book published in March 2020, and I chose the same drawings for the cover of English publication as Japanese book with the permission of Eszter Kass, who inherited Kass’s bequest.

Last but not least, I would like to express my gratitude to Thomas Cooper, professor of American Literature and Translation Studies at Károli Gáspár University of the Reformed Church in Budapest for his supervising work of the English text. Without his help it would had been quite a difficult task to publish this English version of my Japanese book. I am also thankful to Tateyama R&D Europe Ltd. for its financial support to publish this book.

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² Professor Kurabayashi is an expert in the field of national accounting in Japan and was appointed to serve as chairman of the UN Statistical Office from 1982 to 1986.