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Flex-able Capitalism

Dr. Katalin Ferber
Visiting Professor
FUB
Berlin

Abstract: The fall of socialist systems in East and Central Europe has unintended consequences, such as surprising failures of previously strong economic and stable social regimes in the region. The „standard" neoliberal policy what was advised to the core countries (Poland, the Czech Republic and Hungary) have recently demonstrated the failure of neoliberal ideology and policy. The presentation analyses a relatively neglected area of the „new" and „capitalist" systems in East-Central Europe. Between 1989 and 1995 the Western advisors aid-organisations and officially helping institutes in the region were completely unaware, that the „new system" they assisted to create was not built against the old regime, but functioned as a continous process of the old. The first part of the paper analyses some fundamental policy suggestions in the region along the neoliberal economic and financial concepts. I argue, that the acceptance of the neoliberal ideas and practice demonstrated in the region (especially in Russia) that dogmatic market ideology can replace a dogmatic socialist one because the former almost fully utilised the latter one. The „cookbook capitalism" what the core countries accepted, two decades later restructured the entire region both economically and financially. The second part of the presentation shed light on the double facet-capitalism, what seemingly compatible to any other EU members' ones, but in reality clearly distant and completely new. Using primary sources and the author's conducted case studies, socialist values and egalitarian principles did not disappear from the transitional economies. Rather, those ideas were transferred into nationalist and populist polities, which in several countries paved the way toward a new regime. As a conclusion, I use a pioneering concept on the Janus-faced new capitalism, which states that injecting „Western" ideas to „Eastern" practice constitutes a blurred line between public and private, between institutional and personal. This can be one of the important explanations for the recent right-wing movements and their success to legitimise their cause.

1. Neoliberalism – arguments and counterarguments

In 1947, after the cataclysm of World War II, Friedrich von Hayek initiated the founding of the Mont Pelerin Society. It took the name of the small town famous for its medicinal baths where the first meeting was held. Among the founding members were Milton Friedman, Ludwig von Mises and Karl Popper.[1]

The society's Statement of Aims dramatically warned every intellectual about the economic and financial anomalies that developed during the period of the war, as the authors put it: "The central values of civilization are in danger. Over large stretches of the Earth's surface the essential conditions of human dignity and freedom have already disappeared. […] Members of the society share a fundamental belief in private property and the competitive market". (Note from the book!)

The Mont Pelerin Society's mission was exactly to restore in Western societies these two principles of civilization, believed to have been lost. Members had reasons to be afraid and also to fight, with the weapon of the pen, of course, since the economy and financial institutions of World War II were created after a complete failure of the liberal, free market economy.

The classic free market liberal principles and practice, it seemed by the mid-1930s, disappeared from the annals of history. The "golden age" of the late 19th century became a past remembered with nostalgia, since basically nothing remained of the economic, financial and trade principles of this era after 1933. Free trade failed, and the joys of free market principles could be remembered only by some novelists and only while pondering the romanticizing remoteness of the past (and not for long by them either).

Károly Polányi was one of the few people among the progressive Hungarian intellectuals who (as an émigré in the United States) in 1944 proved with brilliant logic that the practice of classic economic liberalism brought about its own complete failure. Károly Polányi was one of the few people among the progressive Hungarian intellectuals who (as an émigré in the United States) in 1944 proved with brilliant logic that the practice of classic economic liberalism brought about its own complete failure. His most famous book among economists and economic historians, The Great Transformation has become, especially from the 1970s both in the West and in the East a pioneering critique of the "liberal economic ideas".[2]

The Great Transformation has its roots in the unusual background of Polanyi. He came from a latecomer Central European empire, the Austro-Hungarian Monarchy, where economic and social modernization took a peculiar turn in Polanyi's age. Despite the „dual-state" efforts, the Hungarian part of the Monarchy remained backward in many sense, and the "Great Depression" (1873-1896) wiped away most of the liberal faith. His intellectual acumen and his "embedded liberalism" as an economic anthropologist demonstrate how to use Marxist ideas without dogmatism and how to develop them further. His achievements as a thinker, as a journalist and as a social scientist offer an outstanding example of moral and ethical responsibility.

Karl Polanyi (Pollacsek Karoly) was born 21 October 1886 in Vienna. His father Mihaly Pollacsek was a railroad construction engineer. He was trained in Switzerland

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[1] The founding document (Statement of Aims) of the organization can be found on the internet at http://www.montpelerin.org/.

[2] Even at Karl Marx University of Economics in Budapest the Department of Sociology assigned as a mandatory reading Polanyi as I remember in 1977.

and England, became a freelance railroad engineer and his achievement was more than thousand kilometer long railroad built in Hungary by the end of the nineteenth century. In 1904, he Magyarized his children's name from Pollacsek to Polanyi, except of his own. All the four children were raised as Protestants. Jewish origin, Magyarized name, changed religion, and peaceful assimilation: that was the „golden age" of the Dualistic (Austro-Hungarian) empire. The head of the Pollacsek /Polanyi family, Mihaly paved the way for his children to be highly educated, nevertheless experiencing a sentiment which Karl Mannheim describes as his generation was

„Deeply assimilated yet, largely marginalized; linked to German culture yet cosmopolitan; uprooted and at odds with their business and bourgeois milieu of origin; rejected by the traditional rural aristocracy yet excluded in career terms within their natural sphere of acceptance (the university)..."

Karl Polanyi's mother was Cecile Wohl, a Russian woman whose mother tongue was Russian. Although she never learnt fully the Hungarian language, she became the founder and runner of a famous intellectual salon in the family's house. The four children have naturally become multi-lingual, (that was wide-spread in the age of the fin-de siècle), and the age of cosmopolitan, intellectually rich Vienna, where an entire generation of philosophers, writers, social scientists and political leaders together deeply influenced the 20th century.

Karl Polanyi founded the radical club at the University of Budapest, the Club Galilei. He was close friend of Gyorgy Lukacs, Oszkar Jaszi and Karl Mannheim. He earned his PhD in Philosophy in 1908 and graduated in Law in 1912. He was a cavalry officer in the Austro-Hungarian army but because of his sickness he was removed and returned to Budapest. He supported the Republican government of Mihaly Karolyi, but when Bela Kun took over the government from Karolyi in 1919 and established the short-lived Hungarian Soviet Republic, Polanyi fled to Vienna. He was a journalist there until 1933 when he fled (again) to London from the visible fascist danger in Austria. He started to collect material while working in England as a tutor and as a journalist for his book, The Great Transformation. He and his wife Ilona Duczynska moved to Vermont in the USA in 1940. He received a position at Columbia University in 1947, but his wife had never received a visa permission to enter to the US, because of her communist background. Thus they moved to Canada, and Polanyi regularly commuted to New York. In the early fifties, he received a large grant from Ford Foundation to study the economy of ancient empires. The result was published in 1957 entitled as Trade and Market in the Early Empires. In his later years he established a journal, Coexistence.
Polanyi died on April 23, 1964, in Pickering Ontario, Canada.
Polanyi was the first to remind the next generations that state and market develop together. To juxtapose the two as liberals do creates a false dichotomy, which is dangerous and unavoidably destructive in its effect. The neoliberal principles are, according to Polányi dangerous and false:

"Planning and control are being attacked as a denial of freedom. Free enterprise and private ownership are declared to be essentials of freedom. No society built on other foundations is said to deserve to be called free. The freedom that regulation creates is denounced as unfreedom; the justice, liberty and welfare it offers is decried as a camouflage of slavery." As he argues in his book, the "self regulating market" is a "sociological enormity" because it is utopian, thus cannot exist without creating and reproducing societal and economic conflicts.[3]

That is, Polányi's argumentation continues, the idea of freedom degenerates to the mere advocacy of free enterprise, and, thus, the ideal of a free society degenerates into nothing but the pitiful collection of free businesses.[4]

Meaningful freedom for humans does not exist without limitations and rules, just as the economic and welfare activity of the state is inevitably needed for the preservation of human dignity. In short, Károly Polányi was among the first to identify the hidden dangers of neoliberal ideology, and to emphasize as one of the most important elements the opposition of economic functioning and the ethical system of society.[5]

That is, according to neoliberal ideas, economy should function according to the principles of economic efficiency and rationality. This logic does not allow ethical or moral considerations, because they weaken, or in some cases even preclude economically rational and effective decisions.

Neoliberal ideology proclaims global effectiveness and rationality. This has no possibility to be realized in practice, since if all countries (developed and less developed ones alike) were to liberalize in the same way the backlog of the less developed ones behind the developed ones would grow exponentially. The historical development of economic (and financial) liberalism as Polanyi's case studies proves happens with strong state invention and intervention. Certainly England especially in the middle of the 19th century it her on imperial zenith repeatedly advocated the idea of self-regulating market abroad, for the sake of financial and economic expansion.

While neoliberalism promises neutrality – that is, rational and predictable economic and financial environment free of political decision-making – reality is much duller than this. So far, neoliberal practice has caused the unsettling of previous national social compromises everywhere, while resulting in the "successful" destabilization of less developed countries internationally.[6]

Neoliberal ideology is essentially a utopia, a further developed mirror version of Marxist views, which is similar to the utopia of socialist and communist society. The most important element the two utopias share is how they model human activity along imagined values, rendering their propositions unavoidably illusory.

In policy practice, however, the advent of neoliberal policies happened for less utopian reasons.

In several developed Western market economies the practical realization of neoliberal ideology occurred when their post-World War II social market economic reserves were depleted. An ever-growing part of the social safety net (i.e. of the

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[3] Deirdre N. McCloskey, Other Things Equal in Eastern Economic Journal, Vol.23, No.4, Fall 1997, p. 497.

[4] Karl Polanyi. 1944. *The Great Transformation*, p. 265.

[5] Cardinally opposite views were held by most Japanese social scientists immediately after the end of World War II. Japanese economic science has been characterized by extreme sensitivity to ethics since the late 19th century. (About this, see the works of Bai Gao and Laura Hein.)

[6] Nobel prize winning economist Joseph Stiglitz, for instance, considers the entire 1997 "induced" East Asian monetary crisis to be such a neoliberal experiment, which he criticizes accordingly.

welfare services) contradicted the rationality and effectiveness of the market. Neoliberalism was a form of austerity.

The rehabilitation of the “real” market economy was said to be synonymous with the re-creation of free societies. Freedom was understood as freedom of entrepreneurship in all those countries where the institutional and legal guarantees of political democracy worked well. It was understood as shock therapy everywhere the latter two elements were missing.

It is no coincidence that half a century later one of the most often repeated arguments of United States president George W. Bush was about the “responsibility” of the United States, according to which the mission of the USA is to create the free world.[7]

The fall of political liberalism resulted in the rebirth of economic liberalism, at least in most Western countries when in the early 1970s it became apparent that most of the economies functioning along Keynesian principles and possessing a social safety net were on the brink of fiscal ruin. The fundamental reasons for this were seen by experts in the escalation of social spending and in the anti-effectiveness of consensus-based economic policy.

The practical realization of neoliberal ideas was first started by Margaret Thatcher and continued by Deng Xiaoping. Next came the “new” economic policy in Argentina and Chile, and then, in the late 1980s, the big East European “leap”.

The disintegration of the Soviet Union created the possibility of the application of neoliberal ideas in the socialist countries. After the financial crises of 1997, the developed and less developed (közepesen fejlett) economies of East Asia also got the “opportunity to try out” neoliberalism.

The question, at least in this book, is what contributed to the neoliberal victory, which was praised as the “end to history”?[8]

It is clear that the basic question of neoliberalism (just like that of a great part of economic theories is the role of the state in economic growth and in creating social security. The neoliberal theory of the state contains many contradictions (see more on this below), but the sanctity of private property and the complete or near-complete negation of public property are the two most important ideas. These have been realized in many countries.

According to neoliberal theory, public property is demoralizing, since the state can only be a bad owner (that is, handles things badly). As a consequence, most public sectors are wasteful and ineffective. Neoliberalism is for the privatization, if possible, of everything.[9]

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[7] David Harvey, *A Brief History of Neoliberalism*, p. 37, Oxford University Press, 2005.

[8] It was exactly around the time of the fall of socialist (Soviet style) systems that American author Francis Fukuyama’s *The End of History and the Last Man* (Penguin, London, 1992) was published, in which he analyzed the unquestionable, overwhelming victory of free market democracies and, thus, the end of history. Almost two decades after the publication of the book, many scholars are repeating the same, i.e. the victory of the neoliberal state.

[9] This is how an award -winning documentary, *The big sellout*, was created in 2007, directed by a young German film director. The documentary shows the privatization of the water supply in a town in Peru, as a part of which residents are charged for collected rainwater as well. (After violent clashes that end in tragedies, the

In reality, as Naomi Klein writes in her book (which is, many economists and journalists criticized as biased and lacking in data), the application of shock therapy terrorizes society, because it privatizes the state itself – the great majority of the state's institutions and, especially, its former functions.[10] This is the dystopian reality of neoliberalism.

According to neoliberal theory, each individual is responsible for their own welfare – thus, medical services, education, and even pension funds depend on how much people are willing to allocate for these services financially and in other ways.

Neoliberal practice is against any restrictions, be they environmental or socially motivated, unless they are national priority. Thus, it would be very difficult to imagine that the combat activity of any country could be privatized – although this has been successfully refuted by the United States since the war on Iraq. For the first time in the modern era, the war (at least on the American side) has been possible to maintain completely due to the supplier activity of the private sector, that is, private companies. Hundreds of subcontractors have been carrying out most of what are really the tasks of the army.

One of the greatest contradictions of neoliberal theory is that even though every individual is responsible for the pursuit of their interests and its success, the theory opposes any collective protection of interests (for instance, the creation of unions), since it indirectly weakens the competitiveness of companies. (The collectivity of companies themselves goes unexamined).

In practice, neoliberalism has had the most serious consequences everywhere in the world. It is no coincidence that in parallel with how neoliberal economy and financial policy gains ground worldwide, a unique series of events rocks the international summit meetings of financial and economic organizations every year. A hitherto unknown global anger has surrounded every summit meeting for a decade now, and the anger towards globalization is still on the increase. Undoubtedly, globalization itself is a consequence of neoliberal, supranational trade and economic policy or, if you like, its by-product. It is an interesting contradiction, however, that countries professing themselves to be neoliberal introduce bans on imports (e.g. the EU on most agricultural products, or the USA on steel products during the Bush presidency), that is, there is no country in the world which has ever functioned according to neoliberal theory.[11]

The real opponent to neoliberalism, however, is East Asia. In East Asia there has never been a strict dividing line, in the European or, even less in the Western European sense, between private versus public property, and, thus, nothing is strictly speaking in European sense private, public or state owned.[12] This means that most neoliberal reforms in this region happen very differently and bring very different results these days than in other countries of the world. What is even more problematic than this, however, is that none of the economies of East Asia which rank as leading

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government withdraws its privatization measure.) The original title is *Der Grosse Ausverkauf*, 2007.

[10] Naomi Klein, *The Shock Doctrine*, Penguin, London, 2007.

[11] David Harvey, *A Brief History of Neoliberalism*, pp. 70–71, Oxford University Press, Oxford, 2005.

[12] This is true even of the Chinese economy, which is why the probably most extreme marketization in the world is happening while strategic branches of the economy are state owned, making the Chinese system successful while market-based but militant and autocratic at the same time.

in technology and competitive in international exports have become world famous following a neoliberal blueprint. This is true even of China despite the fact that many western experts now consider China to be a model state for neoliberal economic principles.[13]

Most experts dealing with neoliberal ideology agree, however, on the following:

– The neoliberal state strives to limit to the minimum the state's intervention into the economy, yet there is not a single case of neoliberal restructuring from Margaret Thatcher's rule to the Hungarian József Antall's which did not require an unprecedented amount of state intervention administered over a number of years.

– The neoliberal system has created radically authoritarian political systems in most countries, which contradicts the liberal principles of individual liberties, to say the least. Since organizations protecting group interests are weak or nonexistent, populist ideology replaces the solving of social and political conflicts and the exercising of democratic freedoms. This ideology uses its usual arguments, among which favorites are racism, irredentist and victimizing explanations. The neoliberal restructuring of monetary systems (which the next chapter will examine in detail) requires the intervention of the state more and more often due to the more and more often occurring destructive national and international financial crises.

– As Margaret Thatcher said, there is no such thing as society. There are only individual men and women. As a consequence, neoliberal economic and social policy provokes thousands of conflicts in every country due to the absence of social solidarity (since, let's not forget, there is no society, only individuals), and this generates the proliferation of antisocial forms of behavior.

Following the British neoliberal revolution, international financial organizations led by the International Monetary Fund and the World Bank also revolutionized their previous lending practices. Since 1982 it has been the obligation of both organizations to rescue countries and (large United States) financial institutions that find themselves on the brink of bankruptcy. Neoliberal practice brazenly contradicts theory on this point as well, since, according to the basic principles of free competition, indebted financial institutions and countries are responsible for their bankruptcy themselves, so it is a situation (ideally) for them to solve themselves.

The right to participate in the international monetary system is also Janus-faced. Since the late 1980s one of the prerequisites of membership in the IMF for a country is to undergo full financial liberalization, that is, the full removal of restrictions from the national financial and capital market. Indebtedness, which invariably occurs due to hopes of development,[14] is supposed to support the financial institutions providing loans and, indirectly, the expansion of the lending nations. What an exceptional world we live in, comments Nobel prize winning economist Joseph Stiglitz, where it is the poor nations that support the rich ones…[15]

One example is enough to illustrate this: while the United States offers credit

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[13] The most extreme example of this is the view according to which China became a model state for neoliberal restructuring with Deng Xsiaoping coming to power in 1978. About this, see Janine R. Wedel, Collision and Collusion: The Strange Case of Western Aid to Eastern Europe, 1990–1997. St Martin's Press 1998. New York.

[14] Socialist countries are an exception to this, since there bankruptcy due to loans was due to an attempt to maintain the standard of living and, though it, political stability.

[15] See, D. Harvey, ibid., p 74.

to other nations at 12% interest, the deposit required as a credit guarantee yields only 4% interest.

The neoliberal practice which spread to almost all developed, developing and less developed nations in the 1980s became practically an entirely financial transaction just because the United States wanted to loan its quickly growing number of oil dollars, (the "oil dollars" manufactured by U.S. financial institutions). With the arrival of the loans, the basic principles and economic policy of the free world were also introduced in the borrowing nations.

If we examine any of the conditions of providing loans, each of them shows specific financial expansion, which, of course, is not an unknown phenomenon to economic historians.[16]

It is, however, a new development of the 1980s that, even though it is contradictory to its founding document, the IMF became completely politicized. That is, if a nation wants to use any of its services, it has to commit to introducing neoliberal financial, economic and social policies. Some opinions differ from this. Naomi Klein goes as far as to state that a nation has to introduce an authoritarian political system in order to be classified by international (IMF internal) experts as eligible for receiving any loan, even if it is used to avoid bankruptcy. (This, as I will discuss in more detail in a later chapter, is basically the consequence of the Washington Consensus.)

The neoliberal ideology, in short, is very anti-liberal in practice, since it depends on political considerations which nation or continent becomes the chosen. Some neoliberal principles, such as the privatization of the public sector in the UK and Sweden, are the result of processes of several years. Chile, Brazil, Argentina, Russia, and Central and Eastern Europe accomplished the same with exceptional speed, with the negative political and social consequences to afflict many generations to come.

[16] It is enough to refer to most 19th century colonial empires, where an essentially similar siphoning off of the capital from the colonies to the colonizer nation was occurring. The monetary system based on the pound sterling was also similar: the condition of an "undeveloped" nation joining the system was that it had to keep its gold reserves in the English reserve bank, the Bank of England. For more detail on this, see Mark Metzler, *The Lever of Empire*.

2. Introducing neoliberalism to Eastern Europe (Ingredients)

It is well known now that twenty years ago the representative and internationally recognized expert of the ideological mainstream (and, to use a witty characterization of a historian, its "financial doctor") was Jeffrey Sachs, a young and energetic American economist. (He no longer it is, as he works in environmental protection and on international support of poor nations).

In 1990, he published an article in The Economist titled "What is to be done?" (January 13, 1990). The title is no coincidence to start with, since every East European intellectual knew that V. I. Lenin's revolutionary manifesto of the same title served as the context. That is, this article is the reverse of Lenin's socialist and communist ideas, since Sachs outlined in this manifesto for the first time how socialist economies can be turned into functioning, efficient and democratic market economies.[17]

The article served as the basis of Sachs's lecture series given at the London School of Economics and later served as the basis, of the actual practice of transition economy in Eastern Europe, the Soviet Union (while it existed), and the leading successor state of the federation, Russia. In the end, Sachs's study provided the foundation for the theory of transition economy as well. For almost 10 years, the entire region, from Russia to Bulgaria, was restructured along the principles defined by Sachs for transition economy.

The title "What is to be done?", however, was not Lenin's original thought: it originated from the title of a book by Nikolai Chernyshevsky and was borrowed by Lenin, only to be borrowed again by Sachs for the title of his article.

The reader's job becomes easier if one compares the outlooks of the two authors and the tasks suggested by them. That way the later chapters of the work become clearer as well. Chernyshevsky's original work suggested that the old tsarist rule of Russia be overthrown and some kind of ideal society run by an autocratic government be built. It was among Lenin's very favorite books.

Lenin's work, in turn, was a political manifesto rather than an economic or political analysis that outlined the methodology of creating the new system. The winning team of the revolution, that is, the Bolshevik party, steps up to head the movement, which teaches everyone to think act and live in a new fashion.

A revolutionary change (or rather series of changes) based on an authoritarian government can only be the task of a group blessed with knowledge of a higher order and skills of leadership. The engineers of the future that is they envision the future system of socialism and together with the party leaders "guide" the populace toward a brilliant future.

Knowledge in this system is the special privilege of the few, since the people are not suited to ponder the future, or even to act correctly in the present. Leading along the Leninist path is no easy feat, at least not according to the book in question.

Every member of the advance guard is at the same time the engineer of society, schoolmaster (of no intermediate level!) and adviser of the state administration on matters spiritual and technological. It is difficult to imagine, but it is nevertheless true that the Leninist party administration followed the advice of a small party elite, and the basic principles which were followed in the rapid industrialization, aggressive mass collectivization, and the continuing deportation of millions (these played an important role in accomplishing the accelerated industrialization) are relatively easy to identify. German military economy served as a model for Lenin as did the rational organization of factory organization along the views of the American W. F. Taylor. We are left facing the command “All power to the Soviets!” as put into practice: the exclusiveness of state property, the military mobilization and spiritual restructuring of the entire economy and society at the military command of a small party elite. The “results” are now history.

All of this, naturally, has to be achieved in a revolutionary fashion, that is, through a rapid (and forceful) reeducation of society. The joint application of technological efficiency and military organization surpassed all expectations at the time, during the restructuring of Soviet society and economy. It is no coincidence that the West looked on the successes of the Soviet Union with awe up until the early 1930s.

So: Jeffrey Sachs’s article of the same title appeared in the January 13, 1990, issue of The Economist, one of the leading weeklies of the western world.

The introduction gives a briefly overview of the professional career of the young Jeffrey Sachs, mentions that he is a professor at Harvard University and that he had gained significant experience in Latin America (sic!). The article is accompanied by a picture of Sachs, several other photos, and a bar graph. All this helps the western reader to better imagine the sea of suffering, misery, and absurdity, which afflicted everyone equally in the socialist countries. (Foreign debt and inflation, for instance are mentioned in the article as a legacy of Lenin.)

There are no reforms, only revolutionary changes of regime, says Sachs in the beginning of his article. The only way out (i.e. “what is to be done”) is full privatization, also excluding workers from all forms of privatization. Since the state owns all factories, the state has to privatize all of them, and the workers have nothing to do with it. Swift action is needed. Some of the foreign debt is to be written off, and the change of regime is to be supported with new loans.

At the time of writing the article, Sachs served as an official advisor to Poland and Yugoslavia. According to the article, his experience with Latin American economy helped him greatly in developing his stand.

So, let us see what was to be done according to Sachs. Privatization and the running of privatized large firms are to be put into the hands of rational groups of technocrats with engineer training rather than those of economists. The only solution is to give the market the exclusive role of arbiter in economy and society. Social considerations have no place in this argumentation, since those are “naturally” annihilated by the rules of the market (i.e. by competition).

According to Sachs’s vision, the revolutionary restructuring of the state happens through managers overtaking state administration and making decisions following the principles of the rules of the market. What is required for this is, however, the knowledge and skills of a new vanguard—the vanguard of the state, of the West, and of western experts. Without them, the change of regime cannot be completed.

There is no third way. That is, socialism and capitalism are each other’s opposites, with no alternative to them at all. According to Sachs’s point of view, there is only one form of capitalism for the (former) socialist countries, and that is the free market system that puts neoliberal principles into practice. Various components of this view were brought to fruition in some countries, (primarily in Central and South America), but a perfect and full completion of the model was to be done in the socialist countries.

As the Bolshevik revolution changed the system from capitalism to socialism, according to the view of Sachs, it would be possible to change socialism to capitalism. Timothy Garton Ash characterized this “reverse” process, or better to name it the counter-revolution, as it would be a process to create from a bowl of fisherman soup (a popular dish in East-Central Europe) an aquarium.

Thinking in this way Sachs’s job seemed relatively easy: to annihilate socialism and to create a new capitalism. That is, a new revolution had to happen in people’s heads and in the everyday life.

And who was to do it all, that is, who are the revolutionary vanguard? The vanguard of the old system was not suitable for this, a new vanguard had to be formed. The leaders of the Bolshevik revolution had also been able to find allies in the international communist movement: their goal was to export the revolution “all over the world”, which they only partially succeeded in after 1945.

A sweeping reform of the market was easier to do, since the model was given. The revolutionary vanguard found its helpers in the international community. These experts were western advisers financial doctors, and international auditing (i.e. property appraising) firms. The role of these property-appraising firms deserves special attention.

In the West, there was no comparable size of aid program before since the end of WWII. Thus various governmental agencies in the U.S., the EU, Germany and the U.K. quickly established various agencies to help Central Europe. It was open bid for funding and the accounting firms were on the top of the list. The “Big Six”—Deloitte& Touche, Coopers & Lybrand, KMPG Peat Marwick, Arthur Andersen, Ernst and Young, and Price Waterhouse were previously in the Third World, therefore they had the record of dealing various privatizing tasks. “These firms received contracts from USAID, the EU, the British Know How Fund, the World Bank, and the European Bank of Reconstruction and Development (EBRD). The cornered a large portion of USAID contracts to Central and Eastern Europe and the former Soviet Union.”[18] Among the firms’ tasks were auditing (state-owned companies) privatizing (again state-owned companies) establishing stock exchanges, writing tax legislations (together with law firms who also won contracts from their corresponding government agencies). As the following chapters analyze these firms had pivotal role in transforming the aquarium to a bowl of fresh fish soup. Nevertheless, the auditing firms’ interest was to spend their money as quickly as they could, since their success was evaluated by this sole element. From the “Second World” (as Wedel calls Central and East Europe) however, the proof of success was significantly different. Understandably, in the former socialist countries, the success was equal to have more western investments expanding and open network with western firms and their technologies. Pressure of conflicts, coming from this different institutional (and often personal) interests, tasks and goals mounted despite the flow of aid to the region.

Jeffrey Sachs was among the experts and money doctors who eagerly assisted to

[18] Janine R. Wedel, Collision and Collusion. The Strange Case of Western Aid To Eastern Europe 1989-1998. St. Martin’s Press, 1998, New York. P.27.

initiate the regime changes in East- Central Europe.[19]
Jeffrey Sachs's starting point was the logic of neoliberal economy, almost a commonplace already in the United States at the time. According to it, a democratic society comes into existence only through the introduction of free -market principles. The idea rests on three hitherto unproven assumptions. One is the universal validity of free-market principles, regardless a country's economic, financial, and social background. The other one is that the socialist economies have never been able to achieve any result, which can be competitive or at least comparable to the western economies. Finally, as the logic went on, free market and freedom of individuals are interdependent, thus cannot be achieved without each other.

The young economist, who had gained serious successes in administering the shock therapy in Poland by the time his article was published,[20] voiced his opinion whereby in all soon-to-be (former) socialist countries the same system has to be introduced. Even though the methods can be different from country to country, the end product will be free market democratic capitalism in all cases. Or if not, that is solely the fault of the country in question.

However, Sachs went even further, professing that the, and however noble the individual countries' attempts to find one may be, they will fail sooner or later. The explanation for this was ready: capitalism can be created in only one way, which is, says Sachs, that COMECON and the Soviet market have to cease to be and have to be replaced by trade with the West. More specifically, the Soviet, Central and Eastern European trade relations have to be replaced by trade with the West.

Trade within the COMECON and with the Soviet Union, were thus rejected as the activity of inefficient, unnecessary, and uncompetitive state companies (-or -cooperatives). The true measure of competitiveness is trade with the West, since only the western market is competitive. (One might observe that East Asia, and East Asian capitalism, were also absent from this discussion.)

Let's discover what the necessary and sufficient conditions of free, democratic and market economies, at least according to Sachs:
– completely open foreign trade;
– a convertible currency;
– private ownership as a definitive feature of the entire economy and as the key to economic growth;
– corporate ownership and control in the case of large firms;
– complete openness to the import of foreign working capital;
– gaining membership in international financial and economic organizations (which legitimizes the new national economic and financial system).[21]

The above list reveals something truly remarkable: with the exception of the third point—private ownership--***none of this has anything to do with market economy.*** It does have to do with the currently existing system of financial globalization.

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[19] Jeffrey Sachs repeatedly denied the "accusation" of being official agent/advisor of any East-Central European governments and also categorically rejected any wrongdoings in the region. See Janine Wedel's official blog.
[20] For more on this, see his article on shock therapy and its success in Poland.
[21] The best critical overview of Sachs's program and views is provided in the last chapter of Peter Gowan's book, *Global Gamble*.

Among the economically successful countries which, rarely ever satisfied the above requirements during their development are, the United States and Japan, which to this day has not liberalized either its foreign trade or the import of working capital. Nevertheless, Sachs repeatedly stressed that full liberalization was the only way for the former socialist countries to have unlimited economic growth and success.

Sachs had no more to say about this in his article than that every former socialist economy needed to follow this program in order to get developed technology and products of international quality from the West.

Undoubtedly, Sachs founded a new discipline of science, that of scientific capitalism, which encapsulates just as much fiction and generality as its ideological archenemy and analogical model, scientific socialism.

If anyone compares the two "theoretical" systems, they can easily unveil the sham: both conceptions are based on hypotheses most of which have never been realized anywhere because, how unfortunate!, people have never "truly" followed up on them. Scientific socialism made the socialist type of person its corner stone – the person who denies his/her own individual interest, is unselfish and altruistic.

Scientific capitalism conceived the type of person always ready for a challenge, who is able to compete and to win. This, already at the first read, is a social impossibility, because a competition by definition has losers. But that is the lesser problem with the conception. The bigger problem is that, behavior following the rules of the market occurs, (how unfortunately!) very rarely. That is, the conception of scientific socialism, namely, that selfish individual interest in profit corrupts all societies and leads inevitably to revolution and, in turn, to the founding of a new, happy society, finds its counterpart in what scientific capitalism states about the opposing side.

It is also remarkable that neoliberal ideology turns to none other than socialist ideology for ammunition, since western market economies used various characteristics of socialist economies as "points of reference".[22]

In any case, the only antidote for authoritarian, totalitarian systems was the free market, free prices, free competition, and a societal free fall--free flows of capital and free flows (or liquidation) of labor, – with all the economic, financial and social consequences of it. (Let's not forget, freedom has a price.)

The most important contradiction in the conception is exactly that Jeffrey Sachs's theory can be realized only by maximally involving and activating the state. This is a contradiction he has not been able to resolve. According to this logic, then, the market economy functioning without limitations is created by the state – the very state, which has no role (after doing the above job) in maintaining the market.

This is not what can be traced in the development of European countries (the Austro-Hungarian monarchy among them), namely, that the market-building activity of the state also builds the new system of state institutions, so the two are naturally inseparable in both their development and functioning. In his classic work (*The Great Transformation*, 1944), Karl Polanyi proves this, namely, that the coming into existence and development of state versus market are inseparable, and the state vs. market alternative is simply misleading.

According to Sachs (whose point of view was fully shared by the IMF, the World Bank, and the various other international missions), free market creates societal affluence, while affluence, in turn, is economic democracy itself. The logical stumbling block can be pointed out easily again, since economic and political

[22] See Johanna Bockmann's various articles on this issue.

democracy do not necessarily go hand in hand. What is more, all of the latecomer countries – 19th century Prussia, the Austro-Hungarian Monarch, Russia or Japan – went through economic development with limited political democracy. And there are also examples from the late 20th century of countries getting into the forefront of international economy while having a one- party leadership.
Economic democracy and political democracy are two distinct concepts, since Adam Smith' s classic, The Wealth of the Nations. Economic democracy can exist without (Western) political democracy. Nevertheless, making both intermingled and dependent on each other a core thesis of Jeffrey Sachs and the Western advisories in East-Central Europe.

Liberalization, stabilization (austerity) and privatization are the holy trinity of Sachs's catechism, which was hardly ever questioned in open discussions in the early 1990s by anybody, whether statesmen, central bank experts or company managers.

The present work does not aim to bring judgment to decision makers post facto. Instead it limits itself to discussing **existing** alternatives, even if according to the opinion of experts and decision makers then and now there did not exist real, that is, achievable alternatives.

Undoubtedly, the entire region was in a dilemma, but not because of what was stated by decision makers at the time, namely, that none of the countries **had a choice** due to the critical state of their economy and financial system.
The crisis was taking place primarily and clearly in people's heads, because they accepted everything that promised appealing results in the short run, and they realized it in practice with mind-boggling speed. In the long run it threatened the entire region with social and economic catastrophe, which indeed happened in most countries, including Russia.

3. The "unavoidable" transitional crises

Without the former Soviet Union and its established trade network with the other socialist countries, the whole region plummeted almost unbelievably,, undergoing inflation, unemployment, and an unbelievable decrease in production, coupled with social tension that naturally went with it. I am convinced that at this time it was not strikes or mass demonstrations that signaled the accumulation of social tensions but the invisible and, thus, unrecognized deterioration of people's lives and brutally fast impoverishment. (One of the indices of this is the incredible decrease in life expectancy and a similar rise in the death rate.)[23]

It is now a commonplace that the essence of transition economy – beyond the creation of a new discipline in scientific conferences and the gaining of fame by its experts – is that it brought hitherto unprecedented success to neoliberal economic ideas. This meant "the end of history" that is, no less than an unhindered victory of free- market liberalism over common sense.

There were events that could have been looked at as warnings. The most flagrant may have been Chile with Pinochet's coup and violent overthrow of the democratic Allende government (and a bombing of the presidential palace), and with Milton Friedman, the designer and implementer of shock therapy there, later awarded

[23] Oxford publication, Sachs response.

the Nobel prize in economics.

The big market leap following the Tienanmen Square massacre in China was no less dramatic, and Chine can boast one of the most successful free-market economies despite its authoritarian and militarized political system.

The first example of shock therapy in the East and Central European region was Poland, and even though Hungary started on the road to freeing its market with different conditions and abilities, it did not pay a lesser price than its neighbor, even though that is what most Hungarian reform economists least expected.

Undoubtedly, Hungary commenced with an enormous capital of self-confidence. It is still hard to understand why the most successful economy of the region became the least successful two decades later.

The following table presents in simple numbers, here much more eloquent than words, some statistical outlines of the economic transition.

The degree of economic regression in Eastern and Central Europe: The change in the GDP in the countries in the region (in percentages, compared to the figures of the previous year)

Country	1991	1992	1993	1994	1995	1996	1997
Russia	–5.0	–14.5	–8.7	–12.6	–4.0	–6.0	–1.0
Ukraine	–12.0	–17	–14.2	–23.0	–12.0	–10.0	–8.0
Czech Republic	–14.2	–7.1	–0.9	2.7	4.8	4.4	1.0
Slovakia	–14.5	–7.0	–4.7	4.8	6.8	6.9	4.0
Poland	–7.0	2.6	3.8	5.2	7.0	6.0	5.5
Romania	–12.9	–8.8	1.5	3.9	7.1	4.1	–1.0
Yugoslavia*	–11.1	–27.0	–27.7	6.5	6.6	5.8	3.0
Croatia	–20.9	–9.7	–3.7	0.8	–1.5	3.5	4.0
Slovenia	–8.1	–5.4	1.3	5.3	4.1	3.1	3.0
Hungary	–11.9	–3.0	–0.8	2.9	1.5	1.0	3.0

* National product, which contains the national income and amortization according to the MPS (Material Product System) system.
Source: Márton Tardos: Is privatization successful? In: *Közgazdasági Szemle*, 45:317–332, April 1998. (Preliminary for 1998).

And what about the proceeds? Let us turn back to Hungary's experience.

The proceeds of organizations owning public assets. 1990–1997
(in billions of Forint)

Type	1990	1991	1992	1993	1994	1995*	1996**	Nov. 1997	Total (1990-1997)
Foreign currency	0.53	24.61	40.98	110.67	10.95	411.5	92.9	172.6	864.74
Forint	0.14	5.74	24.92	22.96	35.41	35.4	40.0	111.7	276.27

Cash total	0.67	30.35	65.9	133.63	46.36	446.9	132.9	284.3	1,141.01
Of this, from assets	–	0.93	7.41	5.41	7.8	5.07	7.1	5.6	39.32
Existence credit	0	1.01	9.07	21.72	29.27	3.99	2.5	0.3	67.86
Compen-sation warrant	0	0	2.26	14.56	64.2	30.15	40.7	12.5	164.37
Foreign currency credit	0	0	0	0	16.84	–	0	0	16.84
Total	*0.67*	*31.36*	*77.23*	*169.91*	*156.67*	*481.04*	*176.1*	*297.1*	*1,390.08*

* Out of the 1995 privatization surplus proceeds, 192 billion was deposited into the national budget in January 1996.
** The foreign currency proceeds for 1996 include the proceeds of the Ministry of Finance from bank privatization as well.
Source: Márton Tardos: Is privatization successful? In: *Közgazdasági Szemle*, 45:317–332, April 1998.

The following chapters discuss those internal and international factors a joint effect of which is what we can trace in the functioning of the Hungarian economy and financial system. No expert knowledge is necessary to realize that Hungarian economy has been forced off course for almost two decades. Why?