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A Moment of Political Critique by Reform Economists  
in Late Socialist Hungary:  
'Change and Reform' and the Financial Research  
Institute in Context

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### Abstract<sup>1</sup>

The paper addresses this issue's subject of the question of East/West hierarchies in academe, and the conditions of the epistemic position and public authority of East and Central European scholarship, through a case study of a major institute of Hungarian reform economics, the Financial Research Institute (FRI), and a moment of political critique by its experts in 1986, asserted in the political pamphlet 'Change and Reform'. Through placing the expert and political critique developed at FRI into that context, the paper contributes to a perspective on ECE social science that goes beyond measuring local scientific paradigms to Western ones, and which understands the epistemic position and public authority of local social science as shaped by formative interactions embedded in a common global history.

*Keywords:* Hungary, socialism, reform economics, world system, sociology of science, Financial Research Institute

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To address the theme of the present issue of *Intersections*, this article provides a contextual analysis of a case of political critique by economic experts of the Financial Research Institute (FRI) in late socialist Hungary. Referring to earlier debates on parochialism vs. colonization by Western scholars and sponsors (Hadas and Vörös (eds.), 1996), the call for the present issue refers to the conditions of the epistemic and public position of ECE social sciences. The article will address that question through pointing out how the dynamics of reform economic thought and its relation to politics at FRI are aligned with changes in its macro (geopolitical) and institutional context. By pointing out these linkages, it argues for a perspective in understanding the comparative place of ECE scientific output which, beyond East-West hierarchies within the European academic context, looks at local social science as the articulation of broader geopolitical and institutional interactions.

The paper relies on a rich background of previous studies, which it does not address directly. The historical, sociological and anthropological contexts of economics have been emphasized by authors such as Callon (1998) or McCloskey (1994). The place of economics in the context of the Cold War and semi-peripheral development projects, the raise of the neoliberal paradigm, and its significance in the processes of global financialization, semi-peripheral crises and restructuring, including post-socialist transitions in the former Soviet Bloc, have widely been addressed (e.g. Mirowski and Plehwe, 2009; Babb, 2001; Gao, 2002; Bockman, 2000; 2011; Seleny, 1993; Eyal, 2000; Fabry, 2011; Shields, 2012; Ban, 2014; Szelényi et al., 2001; Drahoukupil, 2008; Böröcz, 1999; Melegh, 2011). The paper follows this body of literature not only in its broader field of empirical reference, but also in its understanding of changes within economics as related to international flows of communication, shaped by geopolitical and institutional positions and interests.

The phenomenon of reform economics was born into a specific historic juncture of economic and political transformation in socialist countries, under the internal and external pressures, intellectual opportunities and efforts connected to those transformations, and as part of the international communication among socialist reform models as well as East-West academic exchange. Hungarian reform economists often referred to this process as one of autonomous cognition: it is economic ‘reality’ that they recognized, and then strove to adjust policies to (Csaba and Szamuely, 1998). Macro-narratives of the reform process might mitigate this intellectual agency of reform economists, yet stick with the immediate identification of reform thought and objective pressures, when arguing that it was ‘the whip of necessity’ of external economic pressure that engendered marketization (Fabry, 2011). The aforementioned tradition of the historical-sociological study of the Cold War and neoliberal economics teaches us to look beyond such immediate causalities, and to see reform economics as a complex social development, defined by and interacting with its context.

Of the various contextual aspects of the formation and effects of reform economics, I will concentrate on the linkages between the dynamics of the national economy, economic policies, the political and institutional role of economists, and broader shifts in the integration of national economies into the world economy, as conditioned by the transformations of the world economy itself. This logic of

questioning is prevalent in a strain of research which looks at the relation of economics and economic policies from the perspective of the world system and dependency traditions, conceptualizing problems of national development as functional dynamics within the whole global economy (e.g. Hirschman, 1958; Cardoso and Faletto, 1979; Babb, 2001; Gao, 2002; Przeworski, 1991; on Hungary: Szegő, 1989; Böröcz, 1999; Melegh, 2011).

Within that tradition, the article's own line of thought relates more closely to the concept of structural heterogeneity, as introduced by the Latin American structuralist school of dependency (Prebisch, 1949), referring to the internal heterogeneity and polarization of social and institutional structures of dependent economies as a consequence of dependence, and to later applications of that approach in the sociology of science (Beigel, 2014). Similarly to this approach, the article conceives of the internal dynamics of the reform economics field as constituted by broader factors of world economic integration. Writing on Hungarian reform economics and its aftermath, József Böröcz conceptualized the structure of the field of economics in a similar vein: as one constituted less by internal scientific rules than by economic and political factors linked to the broader shift of Hungarian politics and economy towards marketization and Western integration. He argued that reform economics is not to be understood by its coherent internal rules, but rather as a moment in expert debates moved by external factors, which, after 1986, shift the same actors' interests toward new positions as apologetic defenders of Western integration (Böröcz, 1999).

The article follows that style of conceptualization, and points out the links between changes internal and external to reform economists' thought. However, studies in the world system and dependency traditions, including Böröcz's, do not claim that internal and external factors would not be interlinked in the case of core countries' economic areas. The historical-sociological tradition of studying mainstream economics, referred to above, also implies the contrary. What the article argues through the example of FRI is that economic reasoning and its public manifestations happen at a certain point of global history as an articulation of broader processes.

The history of reform economics in Hungary, including FRI, is an empirically well-researched field. Previous research has followed the social-institutional construction of reform thought (Bockman, 2000), as well as its links to the broader transformation of the socialist system (Seleny, 1993). Studies have looked at East-West intellectual communication in reform thought (Bockman and Eyal, 2002; Bockman, 2011), political coalitions of reform economists (Eyal, 2000; Szalai, 1989a), their specific professional and institutional interests (Kovács, 1984; Bockman, 2000), and their positions within the institutions of Western reintegration (Drahokoupil, 2008). Hungarian reformist thought has been placed in a comparative history of ideas framework in regional and global perspectives (Wagener, 1998; Kovács and Tardos, 2004). In its account of FRI and its context, the article will rely on that existing literature, published interviews of FRI researchers, and their contemporary publications.

The novelty of the present account does not consist of bringing up new empirical data relative to existing literature on Hungarian reform economics. Its contribution to existing knowledge in this field is in pointing out the links between shifts in Hungary's political-economic integration in response to global systemic shifts, the corresponding changes in the institutionalization and institutional power of economics, and the changes in the content and political role of reform economics. Through pointing out those links in a case study of FRI, the article contributes to the debate over the relationship between Eastern European and Western European/North American social science by shifting the focus from a comparative measurement of academic paradigms to the embeddedness of local theoretical dynamics into an interconnected history, reaching beyond academic institutions and East-West relations. Although that perspective is present in the sociological study of reform economics of the financialization era (as in Babb, 2001; Gao, 2002; Bockman, 2011; Mirowski, 2009), it has not become an evident part of social scientific self-reflection in CEE. Joining the continuation of earlier debates on parochialism vs. coloniality in the topic of the present issue, the article aims to contribute to moving the debate over inferiority/superiority of social scientific paradigms towards the contextual understanding of the making and the use of those paradigms within the same history.

### *Socialist market reforms as a chapter of semi-peripheral development*

The history of economic reform under socialism in Hungary is linked to long-term characteristics of the country's semi-peripheral development. While economic and political debates over possible paths of development at given historical moments tend to translate that long-term heritage into questions of immediate political choice over real promises of upward mobility within the world economic hierarchy, research in a long-term world systemic perspective maintains that the history of the global semi-periphery over the modern period reveals the limits of such hierarchical movement more than its transcendence by individual success stories (Martin, 1990). From a world system perspective, the question of semi-peripheral development is not about the normal story of semi-peripheries catching up with the core of the global economy (as implied by modernization theory, Rostow, 1960), but rather about such ambitions being born from, but also locked into the polarization inherent to the global economy. Following this approach, the present paper understands political and ideological debates surrounding the formation of reform economics as linked to momentary power coalitions struggling over models of world economic integration, rather than having an empirical referent in the success or failure of Hungary's evolution to a central position in the global economy.

The literature on semi-peripheral development distinguishes typical strategies of such ambitions for semi-peripheral advancement, linked to the structures of interests and opportunities provided by local class relations and surrounding world economic shifts (Martin, 1990; Chase-Dunn, 1988; Brenner, 1989). Within CEE history, the alignment between economic strategies pursued by local elites and the opportunities provided by world economic relations has been pointed out by various

authors, especially regarding the alternation between liberalizing and protectionist strategies, as well as agricultural and industrialist priorities, depending on the volatility of export markets and available foreign capital (Chirot, 1976; Janos, 2000; Kagarlitsky, 2008; Szentés, 1990; Kozma, 1996 on Hungary). Opportunities for these strategies and their proponents were largely determined by world economic cycles. Waves of economic reform under socialism occurred under similar pressures, and were similarly determined by shifts in the world economy.

Before World War II, Hungary suffered from severe debt (reaching insolvency in 1931); its semi-peripheral characteristics, namely a relative lack of technology and capital vis-à-vis the core, were enhanced by it losing much of its internal market and economic capacities after 1920. As Hungary engaged in a Stalinist effort of resource centralization and industrialization after the war, the problem of Western debt already resurfaced as early as 1952. Like elsewhere (Arrighi, 1990), import substitution industrialization required technology imports from the core, creating an export pressure for hard currency. After de-Stalinization, Hungary sought to solve this problem through transferring Western technology to Comecon markets on the one hand and selling Soviet energy and raw materials to non-socialist markets on the other. With the oil price hikes in the 1970s, the terms of this trade became unfavourable. Under the consequent hard currency pressure, Hungary prioritized export industries, and later succumbed to hard currency loans (Vigvári, 1990; Gerőcs and Pinkász, 2015).

### *The New Economic Mechanism in Hungary*

With de-Stalinization, between 1953 and 1956 the earlier model of Stalinist development was challenged under the political leadership of Imre Nagy. Party leader Mátyás Rákosi promoted the Stalinist programme of resource centralization and industrialization, and was supported by the corresponding sectors of heavy industry, the party apparatus, the Secret Police, the National Planning Office, and the upward social mobility of the members of the working class and peasantry in general. Imre Nagy, an agricultural economist himself, promoted the relaxation of the centralized industrialization effort, and a greater reliance on economic sectors in less need of such an effort, set free from the severe constraints of the plan through marketizing reforms. He was supported by agriculture, light industry, officials in finance and commerce, intellectuals, political prisoners, and generally those whose interests were harmed by Stalinization, and who strived for greater room for manoeuvre in various environments. Professionals in positions as state controllers and political economists were linked to the structures supported by Rákosi, and economists striving for professional autonomy to Nagy's influence (Rainer, 1996: 525-537).

Nagy brought together a group of economists to work on a reform programme. He re-established a professional environment for economics, previously de-institutionalized as a 'bourgeois pseudo-science'. Economists allied with Nagy followed his critique of Rákosi and the Stalinist model. Throughout the political struggle between Rákosi and Nagy, the fate of their critique depended on the state of those struggles. To avoid outright political attacks, economists developed an increasingly

technicist language, where politics was translated into the realm of expertise and 'reality' (Bockman, 2000: 178). While both Stalinist and reform economists thought the Hungarian profession suffered from 'backwardness', (Csató, 2004), Nagy's allies used that argument to set political economic (Stalinist) dogma against a new reality that gave weight to Nagy's political line. From 1954 on, reform economists allied with Nagy began to develop the idea of the 'economic mechanism' as an objective, autonomous economic model that substituted direct administration with a system of economic incentives. This notion was to constitute the basis of economic reform by 1968.

In 1956, the removal of Rákosi by Khrushchev and the repression of the revolution brought an end to the Rákosi-Nagy struggle. The new leader, János Kádár, put in office by Soviet leadership, engaged in a politics of compromise, reducing political pressure on citizens, gradually allowing commerce with the West, and substituting the aggressive centralization of resources with a politics favouring living standards, similar to Nagy's line. From 1962 on, previous 'hardliner' and 'softliner' economists worked together under the leadership of finance minister and central committee member Rezső Nyers to prepare the economic reform.

Kádár's economic politics were marked by the revolution as well as by broader geopolitical processes. In the Soviet Union, de-Stalinization was followed by a scheduling of economic reform for 1965 in 1961, a gesture which gave a green light to reform experiments in satellite states. During the 1960s, the West European postwar economic revival resulted in an overproduction of technology. Western countries began to look for markets in Eastern Europe, meeting a need for import technology and export dependence on the socialist side. Joint ventures and East-West commerce with satellite countries began to flourish (Kozma, 1996). Market reforms in the region converged with a growing interest in Western credit and the IMF - by 1966-68, Hungary, Czechoslovakia, Poland and Romania had all attempted to join the IMF.

The tendency toward market reform was aided by East-West knowledge exchange. Starting in 1956, the US National Security Council supported educational exchange with socialist countries, with the aim of strengthening internal critique based on Western professional knowledge. The Ford and Rockefeller foundations started associated exchange programmes. In Hungary, the Ford Foundation worked closely together with the State Department, focusing on reform economists who would have the most impact on the new mechanism (Bockman, 2000: 259-264).

The Hungarian New Economic Mechanism (NEM) was prepared and implemented in the tradition of the reform idea initiated under Nagy, but also in compliance with the broader processes described above. It emphasized supply and demand over planning, and substituted direct administrative tools with a system of incentives favouring profitability. This system aimed to favour agriculture and companies with better technology and Western export capacities (generators of convertible currency), and disfavour lower technology industry which could only export to Comecon countries.

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### *Changes in institutional and professional power during the reform process*

In terms of institutional affiliation and preferences, the Ministry of Finance was the centre of the 'mechanism movement'. Bockman notes that the intellectual role of the Ministry of Finance in the preparation and implementation of the NEM was closely linked to its institutional capacities, and directly linked to mechanism questions. It dealt with company finance, incomes, financial balances, forging tools to measure company success when prices did not reflect demand and costs and to pressure companies to produce necessary quality and quantity (Bockman, 2000: 277).

The ministry was not only the centre of reform preparation, but also became its main bastion in terms of institutional power. The NEM reduced the significance of the classic loci and actors of direct planning. It weakened ministries for particular economic branches and substituted branch-based central committee economic divisions with that of the Economic Policy Division under Rezső Nyers. It weakened the institutional centre of planning, the National Planning Office, and transferred much of decision-making to the territory of the Ministry of Finance: company finances, the national budget and financial balances (Bockman, 2000: 301).

In terms of professional personnel, controllers, engineers and technicians working on the concrete details of fulfilling the plan lost position and decision power to economists and accountants dealing with decisions based on financial concerns. More economists were trained and employed in the apparatus, new research institutions were created, while the general numbers of state personnel were reduced (Bockman, 2000: 296-298). The foundation of FRI in 1968, as the official research institute of the Ministry of Finance, with the task of doing research for and aiding the work of the apparatus, was part of this transformation of the economy, and of the consequent shift in institutional and professional power (Wilcsek, 1970).

### *The halting of the reform process and the politicization of the struggle for the second wave of reform*

The 1968 reforms were to be followed by a second wave, scheduled for 1972. Brezhnev's about-turn after 1964, the invasion of Czechoslovakia in 1968 in response to Dubcek's reforms, and Soviet leaders' critique of market reforms in Hungary in 1969 all worked against that plan (Tőkés, 1996: 103). Within the Hungarian party, reformers lost position - Nyers himself was removed from the Politburo from 1974 until 1988. However, Nyers remained member of the Central Committee. Basic economic institutions of the NEM, such as the system of economic incentives, remained in place, as did its new institutions and their professional employees (Seleny, 1994: 31-32).

From 1972 to 1974, the turn in economic policy brought a different wave of reforms from that scheduled by NEM. Central party power, big industry and industrial unions were the main beneficiaries of the change. In 1972, 50 of the biggest companies were exempted from the general system of incentives as 'privileged

enterprises'. Instead of economic autonomy and market-like rules, this move favoured centrally targeted and technologically intensive development. However, from 1973 on, the boom in oil and raw material prices required new efforts to restore the balance of payments (Berend, 1990: 234). Based on the supply of cheap credits from petrodollars, the leadership resorted to Western loans, with the aim of using them for technological development in industry. Wages of industrial workers were raised as a part of favouring big industry against agriculture. Ambitions for industrial development aided by foreign loans were not fulfilled. High technology Western exports did not grow to balance the problems with the current account deficit and the growing state debt. Finally, after Paul Volcker raised the US federal funds rate, Hungary's debt increased exponentially (Vigvári, 1990).

The new turn towards reforms aided actors and institutions allied with the NEM reform process, whose influence or gains had been toned down by the conservative turn, to use the situation to struggle for a new round of reform, against industry-based centralization. In this struggle, a specific discourse was formed around the alignment of several actors on behalf of reforms. Throughout the years, one major ally of reform economists became the IMF, whose significance grew in line with the amount of state debt (Bockman, 2000: 329). Two further local expert groups allied with economists in the reform struggle: sociologists and dissident intellectuals. Within this system of alliances, a consensual form of the criticism of socialism developed, which came to embody intellectual common sense in the years leading up to the regime change. Contrary to the technicist language of the earlier mechanism movement, this new version of reform discourse touched on social and political matters, and increasingly formulated expert criticism as political critique (Bockman, 2000: 325-326). Within that reformist alliance, all analysis seemed to point in the same direction: world economic requirements, social inequalities and democratic deficits all necessitate marketization and the rolling back of party-state power.

A common reference point for economists and sociologists was the second economy, an existing practice which they pushed to legalize as part of the expansion of market activity. Reform economists relied on sociologists' findings on the second economy being beneficial for workers and small entrepreneurs to argue that the expansion of market relations would alleviate the hierarchical social relations imposed by state planning (Gábor, 1979; Seleny, 1993: 142). By 1982, pressured by political tensions resulting from austerity and the need to increase working hours under the threat of debt crisis, the party accepted the legalization of the second economy.

In the struggle for new reforms, economists increasingly came to include a reference to democracy in their arguments, simultaneously with their rapprochement with political dissidents. The conservative turn of the early 1970s stifled Marxist intellectual critics of the system. Influenced by the Helsinki accords in 1975, intellectual critics of the system increasingly relied on the principles of human rights and democracy. KOR's success in Poland inspired Hungarian political dissidents, but they lacked similar possibilities for worker mobilization. Finally, they allied with social scientists producing an empirical critique, and with reform economists (Csizmadia, 1995; Szalai, 1989). By the beginning of the 1980s, the reformist consensus integrated economic, social and political critique. Reform economists developed their arguments within that consensus, claiming that the rule of the market and the restriction of the

role of the state is the condition of economic democracy, and democracy at large (Szalai, 1995; Bockman, 2000: 356).

### ***FRI in the struggle for reform. Monetarist and institutionalist critiques***

Efforts towards a new reform agenda engendered reorganizations at FRI, too. In 1975, minister of finance Lajos Faluvégi entrusted a new director, István Hagelmayer, professor of finance at the Karl Marx University of Economics, to recruit a new research staff, capable of the theoretical preparation of economic reforms. Faluvégi also initiated a general wave of hiring of young cadres at the ministry. Compared to the average age of around 50 at the ministries, Faluvégi reduced the average age at the Ministry of Finance to 29 in 1976, and to an even lower level in the 1980s (Pogány, 1998). It was this wave of reorganization that coagulated the professional group of researchers at FRI who later became known as the reform economists behind 'Change and Reform' (Antal et al., 1987a), a document considered a milestone in the Hungarian regime change for stating an economic critique combined with the need for political change.

Alongside their research work, FRI collaborators also worked in the reform planning process. The content of the criticism they developed remained closely linked to FRI's position within the reform process. The preparations for a second wave of reform, gaining in strength from the late 1970s, concentrated on two spheres: the strengthening of financial regulation – meaning both expanding the realm of the system of incentives and strengthening the balance of the national budget – and the reorganization of large companies, in order to roll back their privilege from under the incentive system. Correspondingly, the two main areas of study and criticism that developed in FRI in this period were monetarism and an institutionalism concentrating on state-company relations.

The monetarists, a group of freshly-graduated young people like György Surányi, László Asztalos and Lajos Bokros, were hired during the latest wave of personnel change. This group, known as the 'finance boys', were trained in Western monetarism, and, with references to Friedman and Hayek, argued that the only way out of the economic downturn was full liberalization coupled with financial rigor. That they occupied this standpoint did not mean that they became stigmatized as enemies of the system. On the contrary, this was a time when the Ministry counted on the expertise of FRI in its financial reforms, and a moderate pressure was exercised upon the institute to conduct investigations relevant to those reforms. László Antal, head of the academic department of FRI, himself an institutionalist, but also an expert in Hungarian finance, set the 'finance boys' as an example for the rest of the researchers (Pogány, 1998). Very soon, they were included in the apparatus work of the second wave of reform.

The activity of the 'finance boys' at FRI fits rather closely the narrative according to which criticism of the socialist economy implied the internalization of Western neoclassical and monetarist theories, and the legitimation of IMF requirements by experts trained in the same tradition. FRI monetarists, indeed,

quoted neoliberal classics, participated in training courses held by the IMF and the World Bank, and later followed careers moving between leading functions in government, business, and consultancy, with Surányi becoming head of the National Bank as soon as 1990, and Bokros minister of finance by 1995. However, to go beyond narratives emphasizing purely individual agency or external pressure, it is worth considering the story of FRI monetarism together with that of institutional critique.

The institutionalist wave of research at FRI started as soon as the wave of reorganization began, not long before the ‘finance boys’ arrived to the institute. László Antal arrived at FRI in 1977 to head the scientific division, having worked as counsellor in the ministry since 1968. He began to investigate the inadequacies of the reform process relying on his experience in the apparatus. In 1979, he published an influential paper entitled ‘Development – with some digression’ (Antal, 1979), in which he set forth the argument that stood at the base of the later work of FRI institutionalists. The paper stated that the fate of reform process did not depend on the formal elements of the price and regulation system – that is, monetary regulation, a term as yet avoided in socialist economics – nor on the specific measures of economic policy, but on the relations between economic government and company structure.

Antal argued that the system of direct command under Rákosi had created systematic bargaining relationships between large companies and governing bodies, and that this system was left unchanged by the 1968 reform. Through those incremental relationships, in the new environment of decentralization that wished to encourage competition in profitability, companies that were large and important enough could achieve various bargains that exempted them from the requirements of the reform. He claimed that by the second half of the 1970s individual bargains to circumvent regulations and stimuli prescribed by the 1968 reform gradually formalized into a mechanism of the ‘division of regulators’ (Antal, 1979: 97-98).

The only solution, according to Antal, was to quit correcting the individual traits of the regulatory system one by one, and to embark on a radical reorganization of the interconnected institutional system of economy and regulation.

From 1976, Erzsébet Szalai coordinated a series of studies at FRI on investment in seven large companies in the processing industry. She arrived to conclusions similar to Antal’s (Szalai, 1981). In 1978, Éva Voszka and László Lengyel carried out a collective research into the relationship between company structure and company growth. From 1977, a cross-department team under the coordination of László Lengyel conducted a wide spectrum research project in the Hungarian Ship and Crane Factory over several years (Csanádi et al., 1984). At the turn of the decade, Éva Voszka wrote on the organizational changes in steel and machine industry companies during the reform process. In 1982 she started on a new research path, focusing on the sociological analysis of decision making in bodies in economic government (Voszka, 1984). At the end of the 1970s, Mária Csanádi looked at the relationship between company size, profitability and distribution of state subsidies in the period between 1968-1980 (Csanádi, 1980). Later, she continued to work on the structure of relationships between state apparatus and economic decision-makers, and arrived at a formalized theory (Csanádi, 1995; 2002; 2006). Erzsébet Szalai also

continued her empirical work based on the institutional-relational questions characteristic to the group, and in 1989 emerged with a concluding work (Szalai, 1989b). Relying on empirical material that reached from the mid-1970s to the second third of the 1980s, she presented the characteristics and dynamics of the interrelation between large company interests, large company pressures, and reform efforts of varying intensity. The second half of the book translated the analysis into the political terms of social interests and power relations. It claimed that the crisis of the 1968 reform process should be seen as a crisis in interest harmonization, the mechanism of interest integration being systematically distorted by the bargaining relationship between large companies and economic government.

What institutionalists proposed was a deep organizational reform that could break the networks of state company bargains. This could be read as an argument for marketization and privatization. However, institutionalists did not link their criticism of the new mechanism to the argument that the crisis would prove the inferiority of the socialist economy. They did not think that the NEM did not work because there was too much state intervention and too little of a market based on incentives. Antal claimed that both direct planning and the idea of a perfect system of incentives lose from sight the substantial world of social and political relations that shape the economy and economic governance alike: “The ideal of a consequent centre or company interests that can be modelled on the daily needs of the plan go back to a way of thought that works with an image of the economy devoid of society and politics on the one side, and with economic and social processes reduced to planned stages on the other” (Antal, 1979: 16). He thought the formation of economic policy already happened as a process of interest harmonization – as a product of the economic mechanism. The economic policy that would be declared as serving the interest of society in general was itself the result of a process of conflict of partial interests and their harmonization. “Planning does not only mean that a process or a central rule of behavior is thought over previously, but it also an expression of the relationship between economic actors, in as much it is part of the mechanism by which resources are distributed between them” (Antal, 1979: 22).

This nuanced picture of social and political power relations with respect to economic policy was made oblique by the reform consensus of the era, emphasizing the opposition between illegitimate and ineffective rule by the party state, and a supposedly harmonious world of the market, civil society and democracy. As soon as its contenders began to efficiently bring down the party state, the main questions of the regime change appeared exactly on that territory of economic, social and political relations. By that time, however, the position of reform economists had changed.

### *‘Change and Reform’: a moment of political critique*

In 1985, contrary to the reform propositions of IMF and local reform economists, the party engaged in a programme of economic acceleration, supported by big industry and its trade unions. This attempt at reinforcing the base of central power failed decisively, as the Plaza Accord in 1985 depreciated the dollar in relation to the Japanese yen, a significant part of Hungary’s debt being denominated in the latter

currency. This failure reinforced the positions of both local and IMF advisors. From 1986 on, marketizing reforms proceeded with an unprecedented pace. In 1985, however, reform economists momentarily felt that a new wave of company lobbying had gained strength over reform plans, and that economic acceleration without reforms would lead to an economic catastrophe for deeply indebted Hungary.

New developments in the dissident movement added to the political zest of reform economists. By 1985, FRI researchers had established links with the nascent democratic opposition, some of them even publishing articles in samizdat journals. In summer 1985, László Antal, László Lengyel and Erzsébet Szalai took part in the first formal gathering of the democratic opposition at Monor, under the group identity of 'reform economists'.

The halting of the second wave of reform, as well as the oppositional verve of the Monor meeting, inspired FRI researchers to declare their perspective on the country's situation. They initiated a collective writing process that involved authors and discussants not only from FRI but also from apparatus positions and other research institutes. The outcome was not intended to be a scientific paper but rather a declaration of the position of authors vis-à-vis the state of the reform. In this gesture, a public position of economic experts voicing their professional opinion as a political standpoint was solidified: the 'reform economist' as an agent of the regime change.

'Change and Reform' contained the standpoints to which experts working in the reform process had arrived by 1985. Bearing the mark of the various mindsets of the authors, it spoke of monetary rigor as well as of the need to transform company-state relations and redistributive mechanisms. From a political perspective, its most important conclusion was that partial reforms would not be enough to save the country from economic crisis. Necessary reforms would imply transforming the relations between state leadership and the economy – a conclusion that was backed by various institutionalist and monetarist arguments (Antal et al., 1987a).

The political significance of the document stood not in the novelty of its claims but in its positioning. The editors had already contacted reform communist leaders before the document was actually written. They asked for political protection, but also hoped that their opinion could acquire influence through the internal power struggles wrought within the party. However, 'Change and Reform' was also leaked out to national as well as international audiences. It gained publicity in the international press and among the reform-minded party nomenklatura throughout the country. In March 1987, the Economy Panel of the party put 'Change and Reform' out for debate. In its official concluding statement, the Economy Panel stated that it accepted the document's evaluation of the country's economic situation, but upheld that economic acceleration was necessary along with the reforms proposed in the document. The statement rejected the exclusivity of monetary rigor as being an oversimplification. It emphasized the necessity of state command alongside monetarist measures, and the role of the party in bringing the reform process into effect. A shortened and slightly changed version of 'Change and Reform' was decided to be published in *Economic Review*, together with the official statement of the Economy Panel (Pogány, 1998: 48-60). By the end of the same year, full Hungarian and English versions of the document were published (Antal et al., 1987a; 1987b).

### *The closure of FRI. The institutional reorganization of expertise*

In May 1987, freshly-appointed minister of finance Péter Medgyessy announced that FRI would be closed by the ministry. The closure was widely attributed to the political waves generated by 'Change and Reform' (Farkas, 2008). Medgyessy himself provided motivation for it by mentioning the rationalization of state institutions prescribed by the 1985 reform (Pogány, 1998: 62). However, he did not mean fully to get rid of the expertise that has built up at FRI. FRI monetarists Lajos Bokros, László Antal, László Asztalos and György Surányi, by that time a World Bank consultant, were invited to work at the apparatus. The bulk of the institutionalists founded a private research company, Financial Research Institute plc, and continued their work there.

The business plan for Financial Research Plc. was to continue research that relied on income from consultancy work for the apparatus and private parties. This business activity came to be more than a side-programme. In 1987, when FRI was closed down for austerity reasons, its annual budget was 3 million forints of the state budget. By 1989 Financial Research Plc. had an income of 160 million forints (Polgár, 1998: 394). The income was generated from consultancy to company leaders, and activities that experts of the apparatus, including FRI, developed during the preparations of the 1985 reform (Matolcsy, 1998: 347). Such recycling of apparatus/expert knowledge was part of the second-economy activities of intellectuals across academic institutions. At FRI, however, it not only involved advice on existing rules, but also active help in starting the process that became later known as 'spontaneous privatization' (Matolcsy, 1998: 347), a process whereby company managers created several smaller companies outside the state company and shifted the company's assets to those firms through multiple moves of issuing, buying and selling shares and bonds. Between 1987 and 1990, this process shifted large amounts of state property into private hands, typically to company managers and political decision-makers (Stark, 1990).

The institutional research into the Hungarian reforms survived the closure of FRI in the narrow sense that it influenced the work of several authors. What ceased to exist with the closure of FRI was its functional role that shaped the critique formulated within it. In 1987, FRI was split into a monetarist group of experts working for the Ministry of Finance, with no sociological and political interest in the coalitions of political and economic power, and a private research company financed by and working *for these coalitions*. In the hottest years of political debates about the regime change, both FRI's monetarist and institutional critique vanished from public politics, the scene where it previously made its appearance as 'reform economics' with a political edge.

The institutional critique developed in FRI appeared in but did not penetrate the roundtable talks at which Hungary's peaceful regime change was negotiated. Claims were made, here and there, that privatization should consider the equal participation of citizens in the redistribution of state property, or that self-management should be recognized as one type of company management (Stark, 1990). Erzsébet Szalai herself argued at the 1985 Monor meeting and the 1989 roundtable talk on

property reform that the decentralization of the economy should go hand in hand with its democratization, and workers should participate in the reorganization of companies. László Bruszt, relying on FRI research material, also argued at the opposition's roundtable talks that, without democratic social participation in the process of marketization, the economic and political power that had been accumulated in the networks of company leaders and apparatus functionaries – to name this formation, he used the word 'oligarchy' – would allow them to retain their dominant position. (Bruszt, 1995) None of these arguments came to have a significant effect. Looking back, both Szalai and Bruszt conclude that the reason they were not listened to was not that there were stronger positions in the debate, but because, in the context of roundtable discussions, debates on economic issues were beside the point (Szalai, 2000; Bruszt, 1995).

At the Hungarian roundtable talks, a new political class was born. (...) The new rules were created by those most interested in them – the future winners and losers in an electoral competition. In that light, it is not surprising that the Hungarian roundtable talks did not bring any agreement on economic issues. Debates over the economy were crippled by a structural characteristic of the roundtable, namely that its participants were parties, and not organizations of work or capital – not economic bodies, not company coalitions, not organizations of employers and not unions. (Bruszt, 1995: 131-132)

The silence in political negotiations over the issues formerly raised by FRI institutionalists went hand in hand with intense activity on the side of company-state coalitions. The period of roundtable talks was also the high point for spontaneous privatization. As Bruszt summed up the 1989 situation: "It is a paradox of today's Hungary that while we are evolving towards democracy, the density of corruption cases grows. (...) While the political negotiations with the opposition have already started, the oligarchy still rules the game of economic power, most of all, the redistribution of the right of use and the right of property" (Bruszt, 1995: 48-49).

## *Conclusion*

This paper has addressed the question posed by the theme of this issue on the conditions of the epistemic position and public authority of social science in Eastern and Central Europe, and the relationship between local and Western paradigms. It has pointed out connections between the dynamics of reform economics, reform process and world economic integration in late socialist Hungary, to demonstrate that, beyond comparisons within academic fields, broader contextual connections can help us understand local academic output and its public use as part of, rather than lagging behind, or being separate from, contemporary global processes.

This paper has focused on contextual connections at several points which stood at the forefront of economic policies and debates in the era, and which the paper considered as part of long-term dilemmas in Hungary's semi-peripheral development strategies: the question of import substitution industrialization and centralization,

dependence on Western technology imports, and the resulting pressure for hard currency. While these aspects do not cover the whole range of global interactions that defined Hungarian development during the era, the paper has put them forward as illustrative of the connection between internal economic debates and global aspects of Hungary's economic development. Focusing on the case of FRI experts, and their political pamphlet in 1986, the paper has illustrated how the epistemic position and public usage of economic expertise changed in line with changes in world economic integration, geopolitical shifts, and the consequent institutional reorganizations of economic expertise.

By 1952, Hungary's long-term problem of Western indebtedness resurfaced after the first wave of Stalinist import substitution industrialization. With de-Stalinization, Imre Nagy challenged the Stalinist politics of Mátyás Rákosi, and proposed a programme of decentralization, raising living standards and favouring agriculture (with export capacities) over industry. Nagy's politics provided a space for economic experts, who used a technical, objective language to protect expert positions against the highly political nature of economic debates. After the 1956 revolution, under János Kádár, Hungary engaged in a series of marketizing reforms, and specialized in importing Western technology to sell it on Comecon markets, and in selling Soviet oil and raw materials on non-socialist markets for hard currency. Besides the revolution itself, this shift was aided by Western overproduction of technology and its search for new markets, and by the 1961 scheduling of economic reform in the Soviet Union. Reform economists also received attention from US funding agencies for intellectual exchange. The New Economic Mechanism introduced in 1968 reorganized institutional professional power from experts dealing with the fulfilment of the plan to experts dealing with the financial aspects of economic incentives introduced by the NEM, most significantly from the National Planning Bureau to the Ministry of Finance. The FRI was founded as the official research institute of the Ministry of Finance as part of that reorganization.

From 1972, in line with Brezhnev's politics, especially on Czechoslovakian reforms, and Soviet critiques of Hungary's reform process, there was a political turn towards centrally targeted and technologically intensive development instead of economic autonomy and market-like rules. To finance development efforts, the government resorted to cheap credits following the boom in petrodollars after 1973. This strategy of using Western loans for competitive technological development did not succeed. The lack of hard currency remained an increasing problem, and, as the Volcker shock changed the directions of the global flows of capital, its public debt became Hungary's number one concern.

In that context, various actors and institutions allied with NEM used the situation to struggle for a new round of reform against industry-based centralization. The Ministry of Finance, and FRI within it, was reorganized to serve the preparation of the new wave of reforms. Within FRI, two groups of experts were formed: institutionalists dealing with institutional reorganization, especially with the role of 'privileged companies' and state-company networks within the new centralized effort, and monetarists dealing with the preparation of market-based incentives. While the two groups' diagnoses diverged on whether it was institutional networks or a lack of market mechanisms that withheld economic development, their criticism of

centralization served as a basis for consensus. Throughout the 1970s, that consensus connected into a broader discourse of political criticism, where IMF experts, sociologists and dissident intellectuals converged in a strain of argument in which world economic requirements, social inequalities and a lack of democracy all pointed towards the necessity of marketization reforms – a consensus bound to collapse in the later years of transition.

Despite reform economists' advice, from 1984 Hungary's government engaged in the politics of economic acceleration. That effort crumbled with the 1985 Plaza accord. After 1986 the position of experts arguing for marketization strengthened, and liberalizing reforms unfolded with an unseen pace. However, between 1984-1986, reform economists felt that, despite their work within state institutions, Hungary was taking a road towards economic catastrophe. FRI economists, also encouraged by their participation at the first official meeting of dissidents in 1985, edited a political pamphlet, 'Change and Reform', which summed up their earlier institutionalist and monetarist critiques, leading to the political conclusion that the relationship between state and society needed to be changed.

After the publication of 'Change and Reform', FRI was closed down. Monetarists were invited to work in the apparatus on the reforms unfolding after 1986, while institutionalists carried their knowledge on state-company networks over to a private research company to advise the same networks in the process of privatization. As the expertise accumulated in FRI entered the process of the regime change, its political aspects vanished from the public sphere.

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