

WAS MARKET SOCIALISM EVER A VIABLE ALTERNATIVE DEVELOPMENT MODEL?¹

By László CSABA²

ABSTRACT: This chapter presents an overview on theoretical and policy-induced practical attempts to remedy shortcomings of a command economy by introducing more or less market elements in the system, without however considering the crossover to a real market economy based on private property, competition and integration to the global economy in trade and finances. Especially with the benefit of hindsight, and in view of the successful Chinese and Vietnamese experiments in the post-1978 period, these attempts deserve more appreciation. Why has this experiment succeed in Asia and fail in Europe?

Market socialism is the marriage between two most contested terms in the social sciences. History of economic thought revolves, to a very large extent, around the question what are the foundational components of a market order in various periods of history and why so. In a similar vein, a considerable body of the political and social science literature of the 19th, 20th and 21st century revolves around the notion of socialism. The latter term implies an alternative to the market economy in the form the latter evolved in the mid-19th century, often termed as Manchester Liberalism or free market capitalism. Socialists themselves tend to disagree, perhaps even more than with some color of mainstream thinking. The latter – following Arrow/1983/ – claims that the same outcomes might be attained via market or pre-planned procedures.

In this chapter we adopt a narrower perspective. We largely ignore the extensive and often formal theoretical debates on what alternatives to the market system could be constructed or imagined on the plane of various modelling exercises. Generally we disregard the attempts to civilize the markets, where the move starts from an already existing, institutionalized arrangement built on markets, competition, free prices and currency convertibility, thus reform policies aim to tame these forces and

¹ Revised chapter for *The Oxford Handbook of Postsocialist Economies*, editd by Alexander GEVORKYAN. Useful comment by I.T.Berend, D.Győrffy and I.Szelényi are appreciated with the usual caveats.

² Distinguished Professor of International Political Economy, Central European University, Vienna and Corvinus University of Budapest, Fellow, The Hungarian Academy of Sciences and of Academia Europaea/London. Official website: www.csabal.com

the results of the horizontal interplay. The above listed trends climax in something termed by various authors as social market economy, welfare state, mixed economy or coordinated market economy.

Also among the emerging economies we find a growing number of models, where welfare is no longer a private affair, but a public good provided in part by corporations, as their social responsibility, and in part by the state, complementing the still dominant family caretaking/Potrafke, 2019/. These models are particularly elaborate in Asia, while classical welfare states exist mostly in the European continent, Canada and Australia.

This trend was first described and forecast by the then leading German economist, Adolph Wagner. His famous Law on ever growing share of public expenditure on GDP was found to be valid for the 20th century/Lamartini-Zaghini,2011/. The law formulates: the growing complexity of industrial society involvement of the administration in matters of the economy is a technical necessity, due to growing tasks of co-ordination. Therefore statism – the move toward Socialism – is both inevitable and beneficial. This is one of the few lasting insights of economics, both of classical and newer brands. The forecast of the inevitability and lasting nature of a mixed economy in any real world, industrialized society has proven valid, even after more than a century since its inception in 1890, even though various forms of socialism proper tended to fail without exception.

The Non-Welfare State: Total Planning Eased by Market

The subject of this chapter is the move in the opposite direction, from plan to market rather than, as above, from market to plan. We take full nationalization of assets as a starting point. Our analysis is devoted to attempts of introducing markets in various forms in the command economies run by one party systems. These attempts were baptized to market socialism, and drew extensive attention, especially at the time of the bipolar system/Kornai, 1993/. In these decades the Soviet Union seem to have presented an alternative way of industrialization, not least legitimated by the military victory in World War II. The more convincing was the case for the centrally planned economy, the less was the appreciation of attempts to combine plan and markets. In the mainstream thinking of the period between 1950 and 1990 *the approach of paradigmatic purity prevailed*. Interestingly, both in contemporary Western and Eastern textbooks the major line of argument was in favor of an 'either-or' approach. You either build on horizontal exchanges – the market – or on vertical dependencies – the bureaucracy, or top-down planning. There is no third way – *tertium non datur*.

Interestingly, those theorists who had a closer relation to actual decision-making never shared this view. We have already mentioned Adolph Wagner, but may mention John Maynard Keynes and Gunnar Myrdal from among the generally revered giants of the profession. Jan Tinbergen/1966/, the first

Nobel winner in Economics was among the first modern age, i.e. postwar analysts to prove that any real world economy is by necessity built on a combination of vertical and horizontal relationships. The *difference between the two is of degree, not of kind* – at least on the level of daily operation.

This observation led him in the volume cited above even to the once much celebrated convergence hypothesis, whereby planned economies will become ever more marketized, whilst market economies will have to employ an ever larger dose of central planning. This seem to have been supported by the emergence of large conglomerates in the US and western Europe on the one hand, and the parallel market-oriented experimentation in Central and Eastern Europe in the 50s and the 60s. True, the Soviet invasion of Czechoslovakia in August 1968 and the invasion by proxy, the imposition of martial law in Poland in December 1981 was setting severe limits to such experimentation. Still, the tendency to solve accumulating economic problems through introducing markets, domestic and external, never ceased.

It is important to remind us, that the highly successful reforms of China and Vietnam in the 45 years since 1978/Hansen, A. et al eds, 2020/ have shed new light on the debates on market socialism. In these two countries economic growth was exceptional, 7 to 11 pc pa, supply with commodities largely improved, and not least the commanding position of the Communist Party has been strengthened. The very fact of sustaining for about half of a century has prompted an entire new line of theorizing about hybrid regimes- an issue beyond the scope of the current chapter.

Market Socialist Practice: Learning by Doing

It has never been fully clear, how far nationalization and ensuing centralization, central planning in its compulsory form and going into petty detail should prevail and be considered as an integral part of a socialist economy. Already the first attempts to implement the ideas of Karl Marx on the ground, to create an economy without money and trade, the so-called War Communism, ended up in catastrophe, with the revolutionary sailors nearly toppling the Bolshevik government they themselves had helped form three years earlier, via the Kronstad uprising of 1921. This mishap has coerced revolutionary leaders including Vladimir I. Lenin to revise their previous dogmatic stances and allow for tolerating markets in most segments of the economy, including calling back of previous owners/Szamuely, 1974/. It is worth drawing the parallel to Hungary, where the first Soviet Republic, in its mere four months of existence, has created such a chaos and economic decline, that discredited the pure Marxian utopia of a nonmarket economy, even for the Party faithful/Péteri, 1984/. Lenin repeatedly talked of the childish adventurism of Béla Kun, the leader of the Hungarian Commune, even after his long lasting service to Cominform.

Nikolay Bukharin, the previous top economist of the Left, was instrumental in formulating a theory whereby the concessions went farther than ad-hoc retreat, i.e. to the point of a paradigmatic revision. He developed the model of *a socialist market economy*, with the commanding heights in the hands of the Party, but all details in the hands of largely professional, non-political corporate management. Very few know, that Deng Xiaoping, the father of Chinese reforms was a disciple of Bukharin in the 1920s in the Party High School of Moscow/Pantsov and Levine, 2015, pp.38-40/, where these ideas originated. Later on he 'only' had to apply these to China, replicating the fast recovery following a similarly ruinous post-revolutionary period, after the death of Mao, during his first period of unrestricted rule in 1978 to 1989. The parallel Vietnamese reform/Doi Moi, launched in 1986 and lasting for twenty years, was built on the same premises, though borrowing directly from China, by then considered universally as a big success story/cf the overview of Xu, 2011 for the Deng period and aftermath, stressing also the Soviet roots and the much longer imperial Chinese preliminaries/.

The New Economic Policy has actually been instrumental in cementing the power of the Bolsheviks, who could attain military success only by 1922. The debate, if and for how long, the concessions to pro-market arrangements can and should survive, have never ceased. For obvious reasons, the revolutionary core considered these steps as treason. By contrast, the revisionists were accusing the Left, led by Trotsky, to be adventurers, who threaten hard-fought control over society by endangering the economic base of Communist rule.

The debate – richly documented in Carr and Davies/1978/ ended with Josif V. Stalin siding with the Left under the slogan „the market breeds petty bourgeoisie by the day”. Thus the need to put an end to it and replace the arrangement with defense-heavy central planning from 1929 on. But it would be hard to deny -especially in view of the immediate parallel counter-case of both Russian War Communism and the Hungarian Soviet Republic – that market socialism, however swiftly improvised and brought about under the pressure of circumstances, including civil war and its aftermath, has positively contributed to solidifying Bolshevik rule. *In its own terms, market socialism has proven to be very much a viable alternative to command planning in its original form.*

Experimentation with the No-Go Scenario

As the detailed overview of ups and downs of the period/Zaleski,1980/2012/ makes it crystal clear, the political centralization which yielded the first truly totalitarian political regime, has been attained primarily, though not exclusively, on economic grounds. The creation of collective farms, for instance, which has immediately yielded a famine in Ukraine in 1930-31, triggering several millions of deaths in peace time/a record overtaken only by Mao's Great Leap Forward in 1958-61/ makes sense only under a simplistic view of industrial organization, which *focuses on the ability control over efficiency,*

productivity, variety, choice and other usual suspects. Organizing this type of farming makes sense – if at all – during the times of conventional warfare, lasting for several years only.

Likewise, abolishing small and medium business in trade and industry, is a measure which is logical only if we take the call for war as inevitable or given. Since Soviet industrialization was, from the very outset, built on the false theory of inevitability of a world war, either for global revolution, or – more credibly – for taking revenge of Mother Russia's borders being moved thousand kilometers eastward at the close of World War I on that front by the peace of Brest-Litovsk. From the beginnings in 1929 to the terminus, i.e. the eventual dissolution of the Soviet Union in 1991, *this military priority prevailed* over many other competing, pronounced and implicit preferences and objectives of various times/Nove, 1992/.

Once we take this approach as given – what we should not – it is unsurprising to see that changes in the Soviet economic system never amounted to a radical reform, meaning the change of the *modus operandi* of the economic order as a whole. Once we appreciate wholesale rearrangements in Yugoslavia, Hungary, China and Vietnam in various periods of time, the dogma of impossibility of market reform under single party rule and predominance of nonprivate property becomes non-credible.

By contrast, the more we think that the logic of the war economy, first having emerged during World War One and resurfaced in later periods, prevailed, the more we are likely to attribute a certain coherence to an arrangement where *mobilization of all national resources for military gain superimpose their logic over any other consideration*, including consumer welfare and competitiveness, to mention just a few of the pets of modern economic thinking.

Let us add: the *far-reaching changes in the above listed countries could take place only if and when the defense priority has been basically given up*, with reference to improved international relations, to national traditions, or size of the country for that matter. To take the most extreme case, Vietnam in 1986 considered re-unification accomplished and control over Cambodia and Laos as secured, American threat perishing, and the conflict with PR China managed. Yugoslavia in 1965 was an island of peace, and China in 1978 launched a new era of economic reforms and catching up, much inspired by the NEP of the 1920s, but drawing opposite political conclusions/cf the subchapter below/. But also for China, the period of 1978 to 2020 was one in which defense spending was kept to the minimum, with the official military doctrine being „sufficient deterrence”, rather than aiming at regional or even global great power status, as in the 2020s. And following the Revolution of 1956 Hungary has never been entrusted by the imperial power to develop a sizable army, and the traditionally apt defense industry has been intentionally kept low key.

In all, market socialism flourished whenever and wherever an attempt for correcting the line took place, *without however the slightest intention of transcending the foundational principles of the command economy*. The latter includes the pre-eminence of state property, the sustaining leading role of the Communist Party in selecting top management of large corporations and banks, state control/mostly monopoly/ on foreign trade transactions, administrative pricing and central control of the macro-economic allocation of resources.

Thus looking from the theoretical perspective, *the Soviet Union, usually taken as the model case for planned economy, must be seen as an exception rather than the rule*. The Soviet economy in the entire 1929-89 period remained subordinate to military considerations. It is open secret by now, that even during the peace offensive of Mikhail Gorbachev in 1986-89 massive deployment of missiles to Hungary and East Germany took place. The economic policy of *uskoreniie*, was hardly by chance managed by the trained military engineer, Nikolay Ryzhkov in the entire detente period.

With the benefit of hindsight centralization for the sake of gaining military superiority seem to have been legitimated by the outbreak of World War Two, although it was preceded by a rather lengthy politics of rapprochement with Nazi Germany. It culminated in the Molotov-Ribbentrop Pact of 1939 and the ensuing territorial gains by the invasion of Poland and the annexation of what is today the Republic of Moldova. Also it is often forgotten that instrumental in supporting the Soviet victory were the Lend and Lease agreements with the USA, providing an unprecedented degree of massive arms inflow into the country. This sophisticated arrangement has allowed major weapons sales and donations, altogether accounting for 36,5 bn USD at current prices in 1941 to 45, accounting for no less than 15 percent of the total military budget of the United States/cf entry in: fdrlibrary.org/lend-lease, retrieved on 8 Feb,2022/. But beyond doubt: the fully militarized Soviet economy could serve a ground war lasting over four years, largely waged on the territory of its own.

These circumstances may well explain, why no substantial reform projects were implemented in the two decade to come. By not joining the IMF and the World Bank in 1944 the USSR, as a major Allied partner, precluded the option of foreign financed postwar reconstruction, known as the Marshall Plan, launched in 1947 to accelerate return to normalcy in Western Europe. In this year two leading planners, Nikolay Voznesensky and Evgeny Varga were dropped from leadership, allegedly for advocating a softer line on foreign debt and planning in general. Given the particularly high general level of secrecy and scant if any availability of archival material, re-classified since 1996, it is difficult to check the claims. Voznesensky was killed in the so-called Leningrad affair in 1950 and rehabilitated already in 1954, while Varga, a close ally of Hungary's Stalinist boss continued to publish on the close

advent of world revolution at times of the East-West thaw. In turn, he relapsed into inattention in the last decade before he died in 1964, when Khrushchev was demoted.

Whatever the case may be, it can be established that the post-Stalin policies *in 1953 to 1957 implied a change of sectoral policies only, not even timid reforms*/cf also Gevorkyan, 2018, chapter 4/. When competition with the USA intensified, resulting in the first *sputnik* in 1957 and the first Soviet manned spaceship in 1961, exacerbated with the Berlin and Cuban missile crises, it was unquestionable that the *defense priority had been restored*. This rigidity in the economy was an imprint of global aspirations. It stood in stark contrast to the general thaw in cultural and ideological life and the abolition of the forced labor camps of the Stalinist period, the main features of Khrushchev's political concessions.

Following the toppling of Khrushchev in October 1964 a period of experimentation was started. The upper hand was given to the new Premier, Aleksei Kosygin, himself a trained military engineer. Coming from the defense industry he was distrustful of anything spontaneous, especially of the weeling and dealing on the marketplace/he liked to term it debasingly as *bazaar*/. Given his aversion, strengthened by what Secretary General Leonid Brezhnev saw as a loss of Party control in Czechoslovakia due to decentralizing political reforms, the hostility to similar, marketizing ideas, aired in the contemporary Russian literature, were rejected and brandished/Ellman, 2014/.

It is often forgotten that the oil price hikes of 1973 and 1979 were providing the USSR with tens of billions of dollars of *windfall money*. *This injection made the policy of doing nothing manageable and affordable*. Planners of the day tended to take it for granted, and planning for yet another oil price hike by 1985 was ubiquitous. Instead, a collapse of global oil prices happened.

This was the time when the finally emerging new tsar, Mikhail Gorbachev initiated the talk about radical reforms, political and economic alike. This is not the place to re-iterate and document the series of very partial, largely cosmetic and organizational changes which have actually been implemented under the bombastic statements/Csaba,1990/. The bottom line is that- *with the defense priority sustaining – no major decentralization happened, which could have reverted economic decline*. Shortage of even basic commodities intensified, and by the turn of 1991-92 Russia was facing the real threat of famine. Like in 1922, a radical political change was imminent. But the latter leads out of the realm of socialism of any sort/Gaidar, ed.2003/. The opportunity to save Communist Party control was missed. Whether such a potential existed or not had been a subject of debate among contemporaries, as the extensive expert survey/Discussion..1989/ documents in great depth and diversity, with the majority being positive about the chances of such a third way alternative. Indeed this, rather than fully

fledged systemic transformation seemed to be the only feasible option as long the Soviet Empire had been still around – until December, 1991.

Market Socialism on the Ground: Hungary and Yugoslavia

Central and Eastern Europe has had a long history of experimenting with market reforms under Communist rule. The latter had been a geopolitical given. The former was, as in the examples above, a kind of necessity forced upon rulers by the harsh realities of the shortage economy and ensuing social dissatisfaction. While the latter has rarely escalated to formal industrial conflict, let alone street demonstrations of the Western brand, covert resistance was wide-spread and often not to be avoided. Some factions of the ruling party were taking up the grievances as instruments in their fight for power and influence. Economic and political pressure, ideological changes, the need to accommodate public preferences all induced changes, sometimes to decentralization, followed by even more centralization and oppression.

Under our angle it is the periods of market reforms which deserve attention. Since the history of these reforms is well-documented in academic volumes/Van Brabant, ed., 1993, Wagener, ed., 1998, Kornai, 1992, Kaase, ed., 2002/ I address only the issue pertaining to our main subject, namely if market reforms were helpful in bridging imminent gaps, and as such, *could and should be considered as viable alternatives to the Soviet-type economy.*³

The case of Yugoslavia is rather straightforward. As it is being discussed in a separate chapter, I make only a few observations that help situate the country case as a model in terms of classical, more abstract comparative economic systems' research. Yugoslav self-management, which was a major innovation of its time, was introduced in 1950, immediately after the break with Stalin. Yugoslavia re-gained its independence through the efforts and sacrifices of the Yugoslav Liberation Army under Marshall Josip Broz Tito, not by the Red Army, as had been the case elsewhere, from Poland to Hungary. Given that for Communists of the time there was only a single proper way of conduct, Tito has soon been seen as a leftist extremist, who nationalized industries and organized kolkhozes at times, when Communist Parties elsewhere denied even the intention of copying Soviet practices.

However the real reason of drift was not the overzeal in socialist construction. *It was the geopolitical rivalry*, when Tito – together with Bulgarian leader and longtime Cominform Secretary General, Georgi Dimitrov - decided to create a customs union on the Balkans. Given the still ongoing civil war in Greece/1946 to 49/ and the Communist takeover in Albania already back in November 1944, this

³ It is quite different a ball-game what the former Governor of the National Bank of Hungary raised recently/Bod, 2021/ if those socialist reforms can and should be taken as ante-chambers of later transition to the market.

initiative was rightly seen by the Soviets as a threat to their regional and all-European supremacy/Berend, 1970/. Dimitrov was assassinated, but the Greek Communists lost. Thus Tito was left alone, at the time of being excommunicated from the Socialist camp.

Given the ongoing Cold War, Tito had to react swiftly. *His reaction was motivated by military concerns: thus the pre-eminence of decentralization.* Being a mountainous country, Yugoslavia – and its predecessors – were never fit for total imperial and military control, as first the Ottomans, and later the Italians and Germans could experience during 1940 to 45. It explains the resuscitation of quasi-independent constituent states, with independent military command, territorial defense, and a large dose of political independence, in line with modern military doctrine. Self-management of enterprises has never been intended to be a measure of abstract efficiency enhancement, but making them self-sufficient and controlled by labor/besides the ubiquitous Communist Party, controlling the top echelons/. This system has been organizationally more efficient than the Soviet economy, but remained in many ways a far cry from any variant of a well-functioning market economy/Sirc, 1979/.

Yugoslavia thus survived the conflict years of 1950 to 1955 and exhibited endogenous development in 1955 to 1989. Without entering in the discussion of Yugoslav disintegration, we may safely claim, that the economic system was able to accommodate territorial and national differences, secure a living standard above the average of the Communist countries, and thereby *contributing to the cementing of the rule of the Yugoslav League of Communists.* The arrangement has allowed for continuous funding of an army, which was by necessity way above the level required by overall European security situation.

While Yugoslavia in this period, especially in the 70s and 80s exhibited high- in several years double digit - inflation and unemployment, which proved very high relative to contemporary European standards, these strains never undermined social peace. *Disintegration was an outcome of revived ethnic rivalry and changed geopolitical situation after 1989, not to malfunctioning of the economy.* A distributive conflict was at the root of decay, not an absolute decline of output and coordination – a big difference from the Soviet Union of the time. Thus, the Yugoslav edition of market socialism was though by no means ideal or perfect, but had been a viable alternative economic model for decades. What is perhaps most intriguing both from the theoretical and historical perspectives, is the fact, that *the political capitalism reigning in the successor states is deeply built on the legacy of the self-managing socialist system.* This régime existed only for four decades, but its impact is still palpable and even formative after three successive decades/Soós, 2011, and Bartlett,W., 2021/.

A lot has been written about the other prime case of market socialism, Hungary. It is a country where command planning in its classical form was in existence only between 1949 and 1953. The long period of various reform experiments, neatly covered by the monographs of Berend/1990/ and /Révész,

1990/ and the survey of Kornai/1986/, were bold for their time, still have never transcended the limitations set by the geopolitical situation. However, they have gone a long way from the Soviet model, abolishing the system of compulsory deliveries in farming, giving up obligatory plan targets, liberalizing foreign trade and introducing a two-tier banking system. Hungarian reforms have had some quite radical periods, as in 1957, 1966, 1984 and finally 1988, when the debate has yielded a *professional consensus on the need to change, rather than to improve, socialist planning.*

Hungary was rightly mocked by contemporaries as the most cheerful barack of the socialist camp. This implied that living conditions, and especially quality of life was much superior to any other country inside Comecon. While quantitative indicators of consumption were constantly higher in East Germany and Czechoslovakia, the two most conservative regimes in terms of Communist self-interpretation, the freedom to travel to the West, or the variety offered by Budapest theatres have been the subject of constant and legitimate envy of the citizens of the above mentioned two 'fraternal states'.

Hungary has never made into a growth champion among the Communist countries. True, falsification of statistics tended to be less extensive, than in other socialist countries, and western-style – SNA, rather than MPS – reporting has regularly been available ever since 1970. Likewise, competitiveness on global markets remained limited, leading to recurring major indebtedness waves in the 60s, 70s and the 80s. Still, the only major resistance to Communism, the Revolution of 1956, erupted not on economic grounds, but owing to the infighting between the reformist and Stalinist factions of the ruling party, which was spilling over to the streets of Budapest. *Importantly, the revolutionary coalition government of Imre Nagy never even considered the undoing of the full-scale nationalizations of the 1940s, or joining any western alliance, military or economic.* This is all the more startling against the later experience of the 1990s, when one of the first measures were application for NATO and EU membership, and the focus of policies were privatization, liberalization and creation of western-style market institutions.

Perhaps the most intriguing feature of Hungarian reform socialism, especially of the 60s and the 80s was the liberalization of small businesses of various sorts. It has been a subject of debates ever since, if those germs of petty capitalism were already the vanguard of the real thing, i.e fully-fledged large-scale privatization of assets, which came only in the 90s. Either way, as long as the Communist political system lasted, small business had contributed to improving supply in many areas, especially in services, both industrial and personal. Thus, the contemporary ideological justification of these being *sources of appeasement and thus of political tranquillity seem to have been validated by experience.*

In terms of global integration we should mention, that Hungary joined the GATT/the preliminary to WTO/ in 1973 and the IMF/World Bank twins in 1981. Libraries have been written if these steps contributed to strengthening or weakening of the reform Communist rule in the past two decades/cf Brada-Schönfeld-Slay, eds, 1996/. With the benefit of hindsight, and without questioning the technical and tactical rationality of joining the global organizations, one can unequivocally conclude, that *membership in these has provided the gasoline to the already poorly functioning engine of the Communist economy*, and the subversive elements could be easily contained. This finding is in line with later experiences of both China and the Russian Federation, as well as of Vietnam/on the latter and Laos cf Hansen,A. et al eds, 2020/.

In all, the Hungarian experience is also supportive of the previous findings. Namely that market socialism has been forthcoming in both legitimating and stabilizing Communist rule. Thus *it has to be appreciated as a viable alternative to Soviet style planning*, as first formulated by /Bauer, 1983/, drawing extensive criticism at the time of writing.

The Chinese Alternative – the Viable Impossible

Since libraries have been produced in the past half century on Chinese economic miracle, in a subsection we may venture to make a single claim, which may sound trivial to some. Namely: *the official characterization of the system, as socialist market economy, is by and large appropriate*. By contrast, powerful arguments that question the socialist nature of China on grounds of growing share of nonstate property and market co-ordination/Naughton, 2017/ are more of wishful thinking than an objective account of what we find on the ground. We also may find as an over-interpretation that reading of affairs which talked about the demise of all amjor reforms already years ago/Lardy, 2019/.

While accepting the core argument about growing centralization and also of the revival of Maoist features of conducting policy under the Xi jinning Presidency since 2012, it must be underscored: China, while advocating the gradually increasing role of nonstate property as a share of total economic output, *has never made a clear-cut option in favor of the pre-eminence of private property, currency convertibility, free pricing and free market entry and exit by unspecified agents*, not under the control of local Party organs/Xu, 2011/. Especially the latter allows for controlling even foreign direct investment, which may come only in the form of joint ventures, which used to be typical in Eastern Europe prior to sytemic change in the 70s and the 80s.

In the following we shall present *a schematic sketch of the Chinese model*. This system evolved through the famous experimentlism, typical of the Chinese tradition, rather than bearing the imprint of any master plan. The survival of the commercial spirit in the 1958 to78 period, i.e the mere two decades

of oppressive nonmarket management/against four millenia of commercial culture/should not come as a big surprise to the impartial observer. Still, the mainstream view in comparative economic systems' research tended to be the questioning of the validity, and especially of the longer term viability, of a mixed system with misaligned incentives. The latter is precisely what we could be observing in China, especially in the post-1978 period.

The 1970 to 77 period saw the gradual consolidation of state administration and normalization of everyday life, to which the economy is an integral part. This followed the disorganization and devastation caused by the so-called Great Proletarian Cultural Revolution of 1966 to 69, whereby Mao attempted to brake the backbone of the bureaucracy, which he deemed inherently hostile to his revolutionary zeal/and rightly so/. Experiencing the decay and faced with Soviet military threat culminating in armed clashes in 1969 on the Northern border, *the rollback started already under Mao*. Following his death in 1974 an interim leadership followed under Hua Kuofeng, which seem to have opted for the no-go scenario. But the situation has deteriorated by then to such a degree, that the room was ready for a coup by the previously deposed and exiled leader of the reformist wing⁴ of the Party, Deng Xiaoping.

Being a disciple of Bukharin from the Moscow Party High School of the 1920s/cf Pantsov and Levine, 2015,pp38-40/, Deng did not have a high opinion of detailed visions and master plans, which he tended to see as ideologically biased and largely non-practical. By contrast he trusted very much the tradition of experimentation, so deeply ingrained in Chinese culture. The most successful experiment of the time was that of Sichuan province under the guidance of later General Secretary Zhao Tzeyang. This model was much like a replica of the Russian NEP of the 1920s, without any of the ideological undertones, but going farther in terms of liberalization. As its fore-runner, this experiment yielded immediate results in terms of improved food supplies and later better provision of services in the cities.

One does not have to be a true believer in Maoism to share the distaste and repulsion felt against radical reforms by those who were part and parcel of the oppressive policies persecuting markets in the preceding two decades. This was the time Deng declared *ideological neutrality in matters of the economy as long the local solution worked* and living standards could be increased *without much political involvement and detailed interventionism*.⁵

⁴ The principal leader of the reformists, former Prime Minister Liu Shaochi was imprisoned and died in captivity, allegedly of pneumonia, in November 1969. Deng was his most loyal follower and deputy in the government.

⁵ It is hardly by chance that in the past years Xi barely mentions Deng and his ideas, while praises Mao, in his return to interventionism and ideological rule.

The more intra-Party infighting took precedence over everything else, the more weighty this priority has become in cementing the political position of Communists in Chinese society. It is hardly by chance that in the 1978-89 period *continuous experimentation implied the gradual radicalization of Chinese market socialism*. Among other things, experts from Hungary, at the time in the vanguard of marketization, but still under the single party system, were regularly briefing the Chinese top leadership on these matters, namely how to preserve Party control and improve living standards all at once/Kornai, 1989/.

This experimentation went quite far, it translated into rather radical steps, as creating a stock exchange in Shenzhen and tolerating a wide variety of non-state activities, many of these being positively private in nature. The creation of Special Economic Zones, where only excises were to be paid, else the administration left entrepreneurs alone, was more of the revival of the Russian practices of the 1920s, since this was seen at the time in other Communist nations as a dangerous excess, a concession to the bourgeoisie.

It must be seen as symbolic that it was the June 1989 visit by Mikail Gorbachev to Beijing when the student demonstrations for complementing market reform with democracy erupted/much the same way as in Hong Kong two decades later/. As documented in detail in Pantsov and Levine/2015 pp.407-416/, it was Deng himself who decided on the military suppression of the revolt. Zhao Tzeyang went to home custody until his death in 2004, showing the very clear limitations of change set by the political structure. It did not mean a freezing of reforms, but it did clearly indicate: *any brand of Socialism means the unilateral subordination of markets to the administration*. And in converse: the transformation in Central and Eastern Europe implied and pre-supposed the liberation of the market from the chains set by a single party system.

Deng has shown exceptional wisdom in retreating from frontline politics, while introducing *the system of regulated successions* at the top of the Communist Party.⁶ This arrangement has ensured another 15 years of reforms along his lines, following his death in 1997 at the age of 92.

The 34 years following the bloody events have seen *a completely new way of social engineering, where experimentation was going hand in hand with policies ensuring central micro-management of affairs in meticulous detail*. As two authoritative official monographs/Wen, 2021, Zhao, 2014/, which cover the bits and pieces of individual reform measures highlight, the constitutive features of the command system, such as a closed foreign trade regime, administrative pricing and bureaucratic decisions over the allocation of resources have all sustained. Meanwhile the appreciation of market in official ideology

⁶ Unsurprisingly, this was discontinued in 2018, when Xi opened the possibility of lifelong presidency for himself.

and legitimation via material improvement rather than adherence to certain Marxist principles, have gathered momentum.

Chinese experts seem to agree/Fan, 2019, Cai, 2021/ that the Chinese economic system has reached the maximum of its potential by the 2013-14 period, and *the slowdown in growth rates, observable peak of 2007 is secular, while sustaining the 47-49 pc fixed capital formation in GDP has clearly been unfeasible*. The decline to 41.9 pc by 2021 according to World Bank source cited in this chapter is a sign of normalization, but indicate the clear limits to just doing more of the same. Chinese experts cited above advocated radical second wave of reforms, that *move towards market liberalization and financial opening up*.

Reality in the decade since the accession to power by Xi Jinping took a different turn. The remedy to the problems was seen in applying a combination of lax fiscal and monetary policies, way before the Covid crisis, but surviving it/cf the analysis and literature cited in Csaba,2020/. Abolishing the mandatory rotation of the top leader, crowding out of the previous practice of plurality/factionalism within a single party, toughening the ideological stance and speeding up the modernization of the armament program, culminating in hipersonic missilies and airplanes, capable of delivering a strike on American ground⁷, together testify of taking a different avenue. The new line is very familiar from the past.

In sum, one should not be much surprised to observe, that as long as the Party control over society and economy is not weakened, by internal or external forces, or both, *the coherent answer was the logic of the party-state, not of the market*, as Zhao/2014/would have had it. This is helpful in cementing the leading role of the Communist Party in medium run, but not in the long run. It is a different matter, if a society, like the Chinese, so much addicted to the priority of harmony and top-down rule, will ever react the same way to oppression and lacking major and sustaining material improvement as societies built on European and American traditions have been.

But this does by no means imply that the writing on the wall has disappeared. The secret of the success of the past half of a century has been *continuous material improvement coupled with more tolerance* and even some more freedom in many non-political walks of life. Once a middle class of property owners and of skilled professionals emerges, lack of those improvements is likely to have its impact – as the third wave of democrtization has already shown globally in the 80s and the 90s.

Market Socialism as a Ssecond Best Option

⁷ The grounding of a spy ballon from China over the US in February 2023 was perhaps symbolic in this respect.

In the preceding subsections we were trying to avoid any normative approach to the economic system/s/ observed, though this is precisely the preferred avenue taken by most of the comparative economics literature.

New summaries of the field/Douarine-Havrylyshyn, eds, 2021, Andreff, ed.2021, Casagrande-Dallago, eds, 2023/ show some new features. First, the above mentioned , somewhat didactic and pedantic emphasis on dichotomic approach to systems is gone. Second, new subjects, as the digital economy, gender and globalization have been emerging. Third, *the school seems to have evolved into a sub- field of broader institutional economics*, rather of the old school, meaning the sustaining priority of the political institutions, historical traditions and public choice in general.

In this chapter we try to take account of these new developments, and formulate our largely historical conclusions combined with the new insights. These are theoretical in nature, as the above volumes testify. But they are for us largely empirical in nature, with China – and also Vietnam – providing ample food for thought for those who consider living standards and technological change to be more relevant than theoretical coherence. This is in line with Deng’s much quoted quibble, ‘it is not the color of the cat, which counts, as long as it catches the mouse’.

What is the take-away from the case studies we presented? First and foremost, that market socialism on the ground never followed the theoretical complexities academic economists were considering, from Adolph Wagner, through Oskar Lange, Joseph Stiglitz or Thomas Piketty. If there was a learning curve, it went the other way around, as the distinctly open and sincere account of Polish participant observers of the time, Włodzimierz Brus and Kazimierz Laski/1989/ testifies. In this volume the two leading reform theorists of the time, both living in exile, gave a soul-searching account of how the failure of incremental reform had taught them, that the problem is not so much with the implementation and the circumstances, *than with the basic concept of Karl Marx*. The dream of a fully or even partially de-commodified economy, run without money, or a mixed economy retaining the basic features of the Marxian concept, is shown by them to be simply infeasible in the medium to long run.

Market socialism has never been the mainstay of the political economy of socialism, as the definitive volume of János Kornai/1992/ proved. It emerged always and everywhere as an *ersatz*, replacing the real thing. *But, as so often in real world economics, second best may well be superior to a bad or no outcome*. And this is an important insight. While the prominent economists of various epochs named in the preceding paragraph formulated their vision of a better, more just and more human society in this way, reality was different.

This is not to dispute away the right of anyone to formulate normative visions in any term she cares to mention. However, fact of the matter is that in the real world, as opposed to visions, hopes and policy suggestions, *market socialism has always been a largely improvised ad-hoc set of arrangements*. This is most visible and explicit in China. In this case both local/Cai, ed.,2021/ and external/Leutert, 2021/ observers underscore the incremental and experimental nature of the arrangement, in contrast to the usual suspect, which would be a master plan. Indeed, in many cases economic reforms tended to be top-down rather than bottom-up in nature, if one thinks of the experiment of Ludwig Erhard in Germany, or of Yegor Gaidar's reforms and privatization in Russia.

The more we appreciate the power of the circumstances necessitating resort to what is termed market socialism, *the less we are willing to go the usual way of comparing the less than ideal outcomes of this arrangement to a theoretical optimum, or even less to the global best practices of the period*. It is easy to prove statistically, for instance, that Spain was far more successful in economic terms in the 1950 to 1990 period than Yugoslavia. However, the proper comparison for the Balkan country should be Turkey, Bulgaria or Albania of the same period- none of which count as global champion.

It remains a subject of controversy, both among historians and economists, to what degree the decisive geopolitical factor of the respective period should be taken for granted. If we take Hong-Kong, for instance, in historical perspective the half a century between 1949 and 1999/the year of return to the People's Republic/ is insufficient to explain the threefold PPP/on market exchange sixfold/ advantage of the city-state's per capita GDP over the mainland/www.databank.worldbank.org, retrieved on 14 Feb.2022/. However, *if the comparison is the Soviet Union, the mere fact that China could avoid disintegration and it has grown much faster than Russia in the 2000s per se validates the Chinese Communists' opting for market socialism*.Grzegorz Kolodko/2021/ is right in highlighting the pivotal role of judgement by the supreme leader of the time in the respective countries, who bear historical responsibility for the outcomes, irrespective of intentions.This holds also for the political costs: the massacre leaving three thousand dead on the Tienanmen Square in June 1989 and the disintegration of the Soviet Empire and the emergence of the unipolar world in December,1991.

On balance, the answer to the basic question raised in the title of the chapter is ambiguous. *If we take market socialism as a normative program* in line with Karl Kautsky, Abba Lerner, Michal Kalecki, Ota Sik, or more recently Thomas Piketty and James Galbraith, or in the contemporary American political arena Bernie Sanders and Elizabeth Warren, i.e protagonists of *a democratic arrangement not killing the market mechanism*, but subordinating it to social preferences and equity, the well-known counterarguments are hard to reject, at least out of hand. Anybody with an economics background could list the major ones.

However, if we accept the classical insight about politics being 'the art of possible' /Bismarck/, we have to remind the reader: *market socialism, as a substitute, was imposed on unwilling and ideologically hostile leaders*. If we accept that the latter were serious about creating an economy without money, trade and the rest, who were meaning de-commodification of as much of socio-economic life as possible, market socialism must be seen as a superior alternative. Being a compromise, the target of criticism should not go to its lack of coherence, as has been voiced on numberless occasions. Rather, one would contemplate about its inherent – or lacking - possibility to evolve into the real thing, a market economy proper, supported by parliamentary democracy.

The more we could see the peaceful transformation of Central and Eastern Europe into market economies in the 1990s, the more we are inclined to the following conclusion. Market socialism *has though been indeed a serious alternative, but only as long as the geopolitical circumstances justifying the socialist option prevailed*. This was the case in Soviet Russia in 1922 to 1991, and this was the case in the countries we discussed, to which Vietnam and Poland should be added. And in the case of China the jury is still out, if the recentralization of the period since 2012 will suffocate economic growth in a globally integrated low middle income country, where the productivity frontier has long not been attained, as the calculations of Fang and Cai, cited earlier, would indicate.

All in all, this finding *concurrs with the broad interpretation* of Johanna Bockman/2011, concluding chapter/ which painted a picture of uninterrupted, *organic road from Marxist revisionism to post-transition neoliberalism*. In a way, the formative features of market socialism warn against such a reading. China, as previously Hungary or Yugoslavia/Uvalic, 2020/, *would need a political breakthrough to make this crucial step to a true market order*. This includes the dismantling of the socialist characteristics of the economy, primarily of the nonmarket allocation of resources, limitations of private property, overcoming statism and last but not at all least, giving up single party control over the selection of managers, whose success is evaluated on ad-hoc political grounds, rather than improvement of the asset value, as in real markets.

A recent highly acclaimed assessment of China today by a long term observer and decades-long Bloomberg correspondent in Beijing/JIn,2023/ interprets contemporary China as a system 'beyond socialism and capitalism'. In this reading maximizing asset value, following the commercial spirit regularly superimposes its logic over ideological and bureaucratic considerations if they clash in practice. Previous analysis regularly and axiomatically talked about the pre-eminence of informal over formal institutions- a factor which may hold the clue to solving the puzzle of Chinese modernization and technological upgrading, having led to open animosity with the US in recent years. If that is the case, the Chinese 'third way', though officially still termed socialist market economy, *must function on*

the ground qualitatively differently from market socialism as theorized and practised in Central Europe or under Deng's rule in mainland China in 1978 to 1997. Should this interpretation hold, this would provide the answer to the question raised in the introduction on why East Asia could succeed while Eastern Europe not.

REFERENCES

- 1/ ANDREFF, W./2021/: *Comparative Economic Studies in Europe – A Thirty-Year Review*. Houndmills Palgrave.
- 2/ ARROW, K./1983/: The organization of economic activity: issues pertinent to the choice of market versus non-market allocations. IN: ARROW, K.: *Collected Papers-vol.2. General Equilibrium*. Cambridge/Mass.: The Belknap Press, pp 133-155.
- 3/ BARTLETT, W./2021/: The Yugoslav successor states: from self-management socialism to political capitalism. IN: ANDREFF, W. ed: op.cit.,pp279-298.
- 4/ BAUER, T./1983/: The Hungarian alternative to Soviet-type planning. *Journal of Comparative Economics*, vol.7.no.3.,pp304-316.
- 5/ BOCKMAN, J./2011/: *Markets in the Name of Socialism: the Left-Wing Origins of Neoliberalism*. Stanford/Cal.: Stanford University Press.
- 6/ BRADA, J. – SCHÖNFELD, R- SLAY, B.. eds. /1996/: *Die Rolle der Internationalen Finanzorganisationen in Mittel- und Osteuropa*. München: Südosteuropa Gesellschaft.
- 7/ BEREND, T.I./1970/: Contribution to the history of East-Central European Integration. IN: VAJDA, I. – SIMAI, M., eds: *Foreign Trade under Central Planning*. Cambridge- New York. Cambridge University Press.
- 8/ BEREND, T.I./1990/: *The Hungarian Economic Reforms, 1953-1988*. Cambridge- New York. Cambridge University Press.
- 9/ BOD, P.Á./2021/: Does a 'reform' socialist legacy serve as an asset or a liability to democratic transformation? Considering some roots of 'Orbanism'. *Post-Communist Economies*, vol.34.no6.,pp 736-755.
- 10/ van BRABANT, J.M., ed. /1991/: *Economic Reforms in Centrally Planned Economies and their Impact on the Global Economy*. Basingstoke:MacMillan.
- 11/ BRUS, W. – LASKI, K./1989/: *From Marx to the Market. Socialism in Search of an Economic System*. Oxford-New York: Oxford University Press/reprinted in 1992/.
- 12/ CAI, F./2020/: *Demographic Perspectives of China's Economic Development*.Abingdon-N.Y. Routledge.
- 13/ CAI, F., ed. /2021/: *The Chinese Way: How China Has Transformed its Economy and System?* Singapore: Springer.
- 14/ CARR, E. H. – DAVIES/1971-78/: *Foundations of a Planned Economy, vols 1-6..* Basingstoke-MacMillan.

- 15/ CASAGRANDE, S. – DALLAGO, B., eds/2023/: *Routledge Handbook of Comparative Economics*. Abingdon-N.Y., Routledge.
- 16/ CSABA, L./1990/: *Eastern Europe in the World Economy*. Cambridge-N.Y.: Cambridge University Press.
- 17/ CSABA, L./2020/: China at the crossroads. *Acta Oeconomica*, vol.70. special issue no1.,pp.3-14.
- 18/ Discussion on socialist market economy. Answers to an inquiry. *Acta Oeconomica*, vol.40.nos /3-4/, pp. 179-351.
- 19/ DOUARINE, E. – HAVRYLYSHYN, O. eds/2021/: *Palgrave Handbook of Comparative Economics*. Houndmills-N.Y.
- 20/ ELLMAN, M./2014/: *Socialist Planning -3d edition*. Cambridge- N.Y. : Cambridge University Press.
- 21/ FAN Gang, et al/2019/: Institutional reform and economic growth in China: a 40 year progress report toward marketization. *Acta Oeconomica*, vol.69.special issue no1.,pp 7-20.
- 22/GAIDAR, E.T.ed./2003/:*The Economics of Transition*. Cambridge/Mass.-London: The MIT Press.
- 23/ GEVORKYAN, A./2018/: *Transition Economies: Transformation, Development and Society in Eastern Europe and the Former Soviet Union*. Abingdon- N.Y. : Routledge.
- 24/ HANSEN, A. – BEKKEVOLD, J.I. – NORDHAUG, K.ed., /2020/: *The Socialist Market Economy in Asia: DEvelopment in China, Vietnam and Laos*. Cham: Palgrave.
- 25/ JIN, K.-Y./2023/: *The New China Playbook: Beyond Socialism and Capitalism*. New York: Viking Press.
- 26/ KAASE, M. – WENINGER, A. – SPARSCHUCH, V. eds/2002/: *Three Social Science Disciplines in Central and Eastern Europe: Handbook on Economics, Political Science and Sociology*. Berlin-Budapest-Brussels: a book jointly published by GESIS, EU Commission and Collegium Budapest.
- 27/ KORNAI, J./1986/: The Hungarian reform process: visions, hopes and the reality. *Journal of Economic Literature*, vol.24.no.4.,pp 1687-1737.
- 28/ KOLODKO, G.W./2021/: Economics and politics of great change: Mikhail Gorbachev vs Deng Xiaoping. *Kwartalnik Nauk o Przedsiębiorstwie*, issue 58/no1,pp.5-15, accessed via http://tiger.edu.pl/Kolodko/KNoP_2021-1.pdf on 17 May, 2023
- 29/ KORNAI, J./1989/: Some lessons of the Hungarian experience for the Chinese reformers. IN: van der NESS, P.,ed.: *Market Reforms in Socialist Societies.Comparing China and Hungary*. Boulder: Lynne Rienner, pp. 75-106.
- 30/ KORNAI, J./1992/: *The Socialist System: The Political Economy of Communism*. Oxford: Clarendon Press.
- 31/ KORNAI, J./1993/: Market socialism revisited. IN: PETERSON, G.B., ed: *The Tanner Lectures on Human Values*. Salt Lake City: University of Utah Press, 14., pp.3-41.
- 32/ LAMARTINA, S. – ZAGHINI, A./2011/: Increasing public expenditure: Wagner's Law in OECD countries. *German Economic Review*, vol.12.no.2.,pp149-164.
- 33/ LARDY, N./2019/: *The State Strikes Back: the End of Economic Reform in China?* Washington,D.C. : Peterson Institute of International Economics Press.

- 34/ LEUTERT, W./2021/: Innovation through iteration: Policy feedback loops in China's economic reform. *World Development*, vol.138/Feb., article no 105 173.
- 35/ NAUGHTON, B./2017/: Is China socialist? *Journal of Economic Perspectives*, vol.31.no.1.,pp3-24.
- 36/ NOVE, A. /1992/: *An Economic History of the USSR- Last and Final Edition*. London: Penguin Books.
- 37/ PANTSOV, A. – LEVINE, S.I./2015/: *Deng Xiaoping – a Revolutionary Life*. Oxford-New York: Oxford University Press.
- 38/ PÉTERI, Gy./1984/: *Effects of World War I: War Communism in Hungary*. New York: Atlantic Research and Publications/Social Science Monographs, no35/distributed by Columbia University Press.
- 39/ POTRAFKE, N./2019/: The globalization-welfare state nexus: evidence from Asia. *The World Economy*, vol.42.no.3.,pp 959-974.
- 40/ RÉVÉSZ, G./1990/: *Perestroika in Eastern Europe: Hungary's Economic Transformation, 1945-1990*. Abingdon: Routledge.
- 41/ SIRC, L. /1979/: *The Yugoslav Economy under Self-Management*. London: MacMillan.
- 42/ SOÓS, K.A./2011/: *Politics and Policies in Post-Communist Transition: Primary and Secondary Privatization in Central Eastern Europe and the former Soviet Union*. Budapest- New York: CEU Press.
- 43/ SZAMUELY, L./1974/: *First Models of the Socialist Economic Systems*. Budapest: Akadémiai Kiadó.
- 44/ TINBERGEN, J./1956/: *Economic Policy: Principles and Design*. Amsterdam: Noth Holland.
- 45/ UVALIC, M., /2020/: What happened tot he Yugoslav economic model? IN: ANASTASKIS, O. et al eds: *The Legacy of Yugoslavia. Politics, Economics and Society on the Modern Balkans*.London: I.B.Tauris, pp.169-190.
- 46/ XU, Ch-G./2011/: The fundamental institutions of China's economic development. *Journal of Economic Literature*, vol.49.no.4.,pp. 1076-1151
- 47/ WAGENER, H.- J.ed. /1998/: *Economic Thought in Communist and Post-Communist Europe*. Abingdon-N.Y. : Routledge.
- 48/ WEN, T-J./2021/: *Ten Crises. The Political Economy of China's Development, 1949-2020*. Singapore:Palgrave.
- 49/ ZALESKI, E./1980/2012/: *Stalinist Planning for Economic Growth*. Chapel Hill? University of North Carolina Press – reprint edition.
- 50/ ZHAO, W.-Y/2014/: *The Logic of the Market – an Insider's View of Chinese Economic Reforms*. Washington, D.C. : CATO Institute.