6 The Radiant Future

Soviet placards and paintings, newspapers and novels, film and music, radio and television portrayed communism as the "radiant future of all humanity." Every Soviet child was fed a diet of dialectical materialism and taught that history was on the side of communism while capitalism was doomed. Soviet war heroics, scientific achievements, and economic progress were all hailed as part of a great march forward to a resplendent tomorrow—one that justified great sacrifices from workers and peasants. But "communism" has fallen on bad days. It has come begging for aid from the West as panic and chaos threaten to dissolve the Soviet Union. Market reform is touted as the universal panacea as the country plunges into economic disaster. Communism has ended up in a shambles.

In Eastern Europe this seemingly invincible order collapsed within the space of a year. Moreover, with the notable exception of Rumania, these collapses occurred with hardly a whimper. What was to be the radiant future became the radiant past. In a remarkable ideological about-turn, now it is capitalism that is proclaimed the radiant future of all mankind.[1] How did these communist or what we have called state socialist societies crumble? Will the putative capitalist future be any more radiant than the socialist past? Will the gap between ideology and reality remain as wide as it was under the old regime? And, if so, with what effects? What is the real future of what was state socialism? These are the questions we try to answer in this admittedly more speculative chapter.

The Collapse of Communism

Since the collapse of state socialism in Eastern Europe was so widespread, we require a general theory of its demise. How should we now understand these societies? In Lenin's vision, socialism is a society in transition between capitalism and communism. It has three components which distinguish it from capitalism. First, socialism is a rationally organized society in which production is for peoples' needs rather than for private profits. Second, it is a just society in which people are rewarded according to their contribution to society rather than according to their ownership of the means of production. Third, it is a radically democratic society which compels those who appropriate and redistribute surplus to be accountable to those who produce surplus.

This third, democratic component goes further than parliamentary democracy, which, according to Lenin, is the best shell for class domination. He valued democracy not for its protection of basic rights of individuals but as a means of preventing the emergence of a new bureaucratic class.[2] Thus he insisted that the new officials who would run society be subject to instant recall, that they receive an average worker's wage, and that the repressive apparatus be dismantled and placed under the control of workers. The very radicalism of this proposal reflected not so much Lenin's utopianism, but his realism, his fear that the central appropriation of surplus would lay the foundation for a new class.

We now know, of course, that his fears were well founded. A radical democracy was never installed and a new bureaucratic class, therefore, did emerge. The dictatorship of the proletariat became the dictatorship over the proletariat. Moreover, the rise of a bureaucratic class turned the first two elements of socialism into their opposite. On the one hand, rationality through planning became the irrationality of an intense bureaucratic competition within the dominant class. Enterprise directors and state managers bargained about prices, targets, and the distribution of investment over the heads of the direct producers, who exercised little direct control of the dominant class. On the other hand, justice based on reward according to contribution became the injustice of reward according to position. The dominant class secured for itself excessive bonuses, and privileged access to scarce goods and services. In short, state socialism arose instead of workers' socialism.

Capitalism appears natural and inevitable because the private appropriation of surplus is hidden. By contrast, under state socialism, the central appropriation of surplus is transparent and therefore has to be legitimated. Here the state is the self-declared appropriator of surplus. It is the transparent oppressor and exploiter, making its appearance in production as a triple alliance between managers, union, and party. The very visibility of the agents of state domination requires an ideology which justifies central appropriation. This has been the ideology of Marxism-Leninism, that is, official or Soviet Marxism—the ideology that declares central appropriation to be both just and rational, and to serve the interests of all.

This socialist ideology is not simply propagated through mass media but, as we have seen, more significantly, it is embedded in a constellation of rituals in the workplace, such as communist shifts, production conferences, brigade competitions, production campaigns, and so on. Precisely because workers have to act out the virtues of socialism, they become conscious of its failings. In painting socialism as just and rational they become critical of its irrationality and injustice. The necessity of an ideology to justify class domination leads to a critique of state socialism for failing to live up to its ideals. In this sense workers come to embrace the values of socialism. This negative class consciousness expressed itself positively in working-class movements such as the Hungarian workers'-council movement of 1956, in the Polish Solidarity movement of 1980–81, and indeed in the strike waves in the Soviet Union in 1989.[3]

For the most part, however, its critical consciousness notwithstanding, the working class has been effectively demobilized by state socialism, which denies it institutional representation through unions or party, separates it from intellectuals, and creates opportunities for individual advancement through upward mobility or participation in the second economy. Thus the working class emerges from state socialism as a weak and atomized force. For the most part, workers were passive onlookers during the regime's transition. Certainly, it would be hard to argue that the regimes of Eastern Europe were swept away through popular revolt. In Poland and Hungary the transition was the result of negotiations between opposition and government.[4] But even in Czechoslovakia and East Germany, where popular movements took to the streets, repression from the dominant class was notable for its absence.

There have been popular uprisings of much wider proportions before, which failed to dislodge state socialist regimes. Only in Rumania could it be said that revolt from below was the leading force in the collapse of the old regime. Rather, state socialism collapsed from above. To say that the ruling classes of Eastern Europe gave way so quickly because the Soviet Union withdrew its guarantee is only to transfer the question to the Soviet Union. In considering the transitions, Eastern Europe must be regarded as part of the Soviet Union, which was suffering from the same crisis.

The dominant class lost confidence in its capacity to rule in the name of socialism. First, despite repeated attempts to bring reality into conformity with ideology, whether through repression or economic reform, there remained a yawning gap.[5] Even such a degenerate form of Marxism as Marxism-Leninism proved subversive of the class society it was supposed to legitimate. Second, the Solidarity movement highlighted the sort of challenges to state socialism that could emerge from the gap between ideology and reality, heightening the failure of a worker's state to represent the interests of the working class. Third, the professionalization of the bureaucratic class and the rise of an educated elite meant less tolerance for the patent contradictions between ideology and reality. For them, painting socialism took on a ridiculous, embarrassing, and macabre form. The dominant class could no longer believe in its own ideology. Instead of trying to bring reality into conformity with ideology, it has, therefore, sought to reconstitute itself under a new ideology which embraces free enterprise rather than state regulation, the market rather than the plan. Instead of trying to make socialism work, instead of trying to give socialist claims a material basis, it turned to a new ideology.

However, changing ideology is one thing, changing reality is quite another. Does the celebration of privatization and democratization stand any better chance of closing the gap between ideology and reality? And if not, what will be the consequences?

The Politics of Privatization

If the state socialist economy was so hard to reform in the direction of socialist ideals, how easy is it to move in the direction of capitalism? Certainly it has been possible to make the transition from communist ideology to the ideology of free enterprise, and it has been surprisingly easy to turn one-party states into liberal democracies. But these are affairs of the superstructure. Can these reforms effect a transformation of the economic system?

If any of the Eastern European countries is in a good position to make such a transition, surely it is Hungary, where economic reforms had gone furthest toward the restoration of capitalism before 1989. Following the 1956 revolt, the Hungarian economy was restructured along lines that brought back elements of the old order. In agriculture, collectivization reinstalled many of the richer and more skilled peasants as leaders of the new cooperatives. Because members of the cooperative were offered opportunities for private farming and access to credit and marketing facilities, there developed a symbiosis between first and second economies.[6] The new economic mechanism of 1968 tried to do the same for industry. It pioneered the transition from a command economy, which attempted to dictate enterprise targets and the allocation of goods and services, to a more flexible system of fiscal planning, which introduced more open bargaining and gave enterprises more autonomy to decide what, how, and for whom to produce. Of course, these changes should not be exaggerated; the state still controlled an elaborate redistributive system. At the same time the government encouraged the development of a legal second economy which would supplement wages and at the same time counter the rigidities of the state sector. The second economy developed not only outside the first economy in private production but also within the first economy. Workers organized themselves into work partnerships, so that outside normal working hours they could enter into private contracts with their own enterprise.[7] How have changes in ideology and in politics furthered or retarded the continued transition to capitalism? Let us turn first to the political changes themselves.

The Politics of Anticommunism

The rapid and unexpected escalation of openings in the political regime began in May 1988 when the aging secretary general of the Communist party, János Kádár, was peacefully removed from power at the National Party Conference. At this time Imré Pozsgai assumed notoriety as a reform communist calling for a multiparty system. "Pluralism" became a political buzzword and legislation was passed by parliament in 1988 that would recognize different parties and end the Communist party's forty-year monopoly on power.

Kádár was succeeded by Károly Grósz—who was very much cut out of the old party cloth, but who was soon overtaken by events as the party split into reformers and hard-liners. The reformers soon assumed control of the party until, at its historic conference in October 1989, the party transformed itself from the Hungarian Socialist Workers' party into the Hungarian Socialist party. In keeping with the times, particularly changes occurring in Poland, the Hungarian party tried to reconstitute itself within an openly declared multiparty system. The party apparatus at the workplace, together with the youth organization, which had already begun to crumble, was abolished. The exodus from the party accelerated. Finally, in the elections of April 1990 the Hungarian Democratic Forum (MDF), working from a nationalist and populist platform, defeated its main opponent, the League of Free Democrats (SZDSZ), who had adopted an openly liberal, procapitalist platform. The socialists, made up of reform communists, obtained only 11 percent of the vote, and the Social Democrats just 4 percent.[8]

Much of the political discourse—before, during, and after the election—was based on anticommunism: The MDF inclined toward blaming the erstwhile communist leadership, while the SZDSZ attacked the communist system. Each party sought to outdo the other in its anticommunist rhetoric, tainting its opponents with communist tendencies.[9] To defend the working class in this context was to risk accusations of Stalinism. Workers, as such, were consequently left out of the political process.[10] The SZDSZ fielded candidates more removed from local politics, and their greater radicalism was not as popular as the more moderate program of the MDF. Many workers had had enough of radicalism. The socialists were too discredited by the past to garner much support, but even they feared too-close association with the working class. When they formed themselves out of the Hungarian Socialist Workers' party they felt that the word *Workers'* was a bigger liability than the word *Socialist* in their new name. The Social Democrats were as caught up in rejecting the communist past as the others. Although the obvious party to defend the well-being of lower classes, it made little effort in that direction. As we shall argue below, leaving workers out in the cold prompted them to begin self-organization in the factories.

The anticommunist rhetoric had a second consequence, namely the rejection of all "plans," "visions," or even "programs" as a dangerous flirtation with the past. The future would look after itself so long as there was no central direction or intervention. Privatization had to be a spontaneous process, that is to say, the initiative had to come from below. In this vision, and it is a vision like any other despite its antivision rhetoric, democracy would release all the vital entrepreneurial energies of the Hungarian people—energies that had been imprisoned by the communist order. All that had to be done was to set up appropriate

legislation and democracy would do the rest. So the election campaign paid little attention to the privatization process, how it might proceed and whom it might benefit. It simply did not matter who would be the owner, so long as it wasn't the state. Although it is true that some were perturbed about the possibility of foreign capital taking over the country, this distracted from questions about which Hungarians would gain from privatization.

Even before the election, the socialist government had been promulgating the rhetoric of spontaneity as eagerly as anyone. For behind the rhetoric stood the transformation of the class they represented—the class of state managers—into what Elemér Hankiss has called a political bourgeoisie. Ironically, the anticommunist rhetoric which all the parties shared served to conceal the very processes which enabled leading cadres of the old order to reestablish themselves as an economic power. To understand just how this was possible we must turn to the legislative process that promoted privatization.

Spontaneous Privatization

Since 1988 three pieces of new legislation on the pluralization of property forms have been enacted. The first to come into effect (January 1, 1989) was the Law on Economic Associations (Company Act), which had been prepared in seven months under the old regime. It made the formation of companies of limited liability (KFTs) and joint stock corporations (RTs) possible. The founding assets of a KFT had to be worth at least one million forints; of an RT, ten million forints.[11] The Foreign Investment Act was passed to encourage foreign companies to participate in the privatization program by supplying capital.

The creation of private enterprises can be understood as a far-reaching extension of previous legislation of 1982 which had established nine new types of independent small enterprise. Among them were the famous GMKs or economic work partnerships. The individual property of the members of a GMK is not protected against bankruptcy as it is in the new KFTs. On the other hand, much more capital is required for a KFT, putting it out of reach of many of those who had earlier participated in the GMK. Many KFTs have been formed with the support of foreign capital, since enterprises receive greater tax relief the higher the percentage of foreign ownership.

Just as the original GMK had a counterpart inside the state-owned enterprise—the VGMK—so the KFT also had its internal counterpart. The members of a VGMK contributed their skills and used enterprise property to carry out tasks assigned to them and paid for by management. This was a way for core workers or workers with connections to earn sometimes three or four times their normal rate outside their normal hours. The Company Act created entirely new opportunities for enterprise managers. They could carve out independent companies within a state enterprise so long as each such KFT was founded with a minimum 30 percent cash contribution. Nevertheless, managers could also invest their money in such companies both within their own enterprises and in KFTs created at other enterprises.

Not surprisingly, it wasn't long before directors of state enterprises realized that they could turn their most profitable divisions into KFTs while the state continued to bear the cost, indeed the increasing cost, of the loss-making divisions and overheads. Moreover, managers could be part owners of the KFT and at the same time receive managerial bonuses. Each KFT, being an independent company, established its own managerial hierarchy, so that there was also a multiplication of managers.

Furthermore, the taxation system encouraged managers, particularly the wealthy ones, to buy into the KFTs. All investment is tax deductible up to 30 percent of income, including any loans received to purchase assets in a state-owned company. If a manager is paying taxes at a rate of 50 percent on a substantial portion of his income, then he may well recoup the costs of his investment by paying less in taxes. He would, of course, have to pay interest on his loan, but there are now proposals to introduce very low-interest "privatization" loans which would make it even more lucrative for the already wealthy to buy up state property. The idea, so it was said, was to achieve the most rapid possible privatization. All evil rested with state property and all good with privatization.

The Company Act was only concerned with the creation of new enterprises. Thus, even when KFTs were created within the shell of a state enterprise, that shell still had to remain even if it was only a few individuals. The next step in the privatization legislation was the law for the transformation of state property, which came into effect on July 1, 1989. This explicitly established the following procedures for transforming a state enterprise into a private corporation. First, the founding capital of the state enterprise had to be expanded by a minimum of 20 percent (or one hundred million forints, whichever is less) by selling shares to an outside "entrepreneur." The law did not define who could be the outside "entrepreneur," but it was presumed to be another enterprise, Hungarian or foreign. Thus, a system of cross holdings was once more encouraged. Once the outside entrepreneur had been found, then shares amounting to 20 percent of the book value of the enterprise had to be given to the state and shares amounting to the value of the land given to the local council. The enterprise then tried to sell the remaining shares, keeping 20 percent of the proceeds and returning 80 percent to the state. Although it has yet to be accomplished, in principle the enterprise council can decide to give shares up to 20 percent of the book value of the company to voluntary associations, the local council, or a social security organization. These latter shares could be paid for out of future profits. The shares that still remain with the enterprise after three years revert to the state.

One of the more significant features of the transformation law is its recognition of multiple forms of property, including ownership by local councils, by mutual benefit associations, and potentially by employee and consumer associations. That is to say, the transformation act dispels the identity, usually upheld, between dismantling state property and privatization. Forms of social ownership which are not state ownership could be a vehicle for representing the interests of different groups in economic transformation. However, in the present anticommunist atmosphere all forms of social ownership are discredited as a dangerous flirtation with the past.

Another feature of the transformation law discourages its use, namely its attempt to incorporate the interests not just of managers but of all employees. With this in mind the enterprise council was given the responsibility for constructing a transformation plan for privatization. But what interests are represented there? Enterprise councils were created in a law of 1984 with the idea of granting enterprise autonomy and shifting ownership rights from ministries to self-governing bodies. On paper this represented a considerable change in the distribution of power, but in practice party and state limited the effectiveness of the enterprise council. In 1984 the political situation was such that the general director was able to fill almost all the positions with more-or-less loyal members. In any event, important decisions were unlikely to be made there. However, most of the enterprise councils were created in 1985, so that their five-year term of office was up in 1990, precisely at the time companies were planning their privatization. With the collapse of the party, the opening up of political processes, and the lodging of privatization plans with the enterprise council, elections to that body suddenly became a focus in the emerging production politics.[12] Once privatization has occurred the enterprise council dissolves itself, normally being replaced by a board of directors elected by the shareholders.

Their differences notwithstanding, both the Company Act and the transformation law leave plenty of scope for manipulation. One major source of abuse is the continuing absence of any commonly accepted method of evaluating the book value of enterprises. Parallel to the committee selected to prepare the Company Act, another committee was set up to propose legislation which would provide guidelines for the appraisal of the value of assets. But this committee never completed its work. The old socialist accounting system was meaningless, while a new accounting system based on the existence of a developed capital market had yet to appear. This made appraisal of the book value of an enterprise or part-enterprise a politically negotiated process, potentially serving the interests of both foreign capital and local management. By devaluing the physical assets of the KFT, managers could ensure that the cash holding became worth much more than the actual money contributed by the parties, be they Hungarian or foreign.

There were a number of controversial sales of undervalued Hungarian enterprises to foreign investors. In the case of the famous light bulb company, Tungsram, 50 percent was sold to a consortium led by the Austrian bank Girozentrale for $110 million, the remainder being bought by a Hungarian bank. Girozentrale then resold the consortium's shares to General Electric for $150 million. In another celebrated case, Hungarhotels, a chain of Hungary's best hotels and restaurants, decided to sell half its equity for the very low price of $110 million to a small Swedish firm acting as agent for an American chain. This became a national scandal until finally the Hungarian supreme court ruled the deal invalid on the basis of a technicality. The problem is not only how to evaluate the worth of enterprises but who actually owns them. Since state ownership was ubiquitous, rights of usage were more important. Now it is difficult to determine from whom an enterprise is to be bought—the state, the local council, or even the employees.[13]

The publicity given to such deals initiated the third phase of enterprise legislation, namely two amendments to the transformation act, taking effect on March 1, 1990. The first amendment stipulated that transactions amounting to more than thirty million forints by a single enterprise over the last two years should be approved by a state property agency (SPA). The second amendment created the state property agency to oversee transformations of state property. It was given almost unlimited powers to protect the interests of society and national economy. The powers of the SPA are so wide, unclear, and unregulated that its existence more or less supersedes the previous legislation.[14]

What started off as "spontaneous privatization" ends up with state regulation. How was this possible? The initial privatization legislation was developed in 1988, when the socialist order was still very much intact. Its introduction was a clear challenge to the monopoly of ownership by the state and faced obstacles on all sides—from the trade union, from the Ministry of Finance, and from the Ministry of Justice. Its advocates had their work cut out to get it through at all, let alone worry about the future consequences. They knew that other laws would have to be changed, but that would have taken them beyond their immediate task. At that time no one was anticipating the rapid collapse of state socialism and the new environment within which the law would function. No one anticipated how the legislation would offer opportunities for state managers to transform themselves into a political bourgeoisie. For a time the state closed its eyes to the abuse that took place in the name of "spontaneous privatization," but eventually public opinion compelled the establishment of state regulation. But it was done in the traditional manner of giving monopoly power to a single agency—the state property agency. There is not even a general law on privatization that would provide firm guidelines for such a body.

Spontaneous privatization began as an ideological assault on the past, but it ended up reproducing the class forces that dominated the past. In order to forestall the appropriation by state managers of the firms they had hitherto managed, the anticommunist bloc had to resurrect an anathema from the past, centralized control over the economy. Because central direction is ideologically unacceptable, this control had to be performed in private, unsupervised by democratic bodies such as parliament. The very instrument that was supposed to usher in a new era—liberal democracy—turned out to protect many features of the old regime. This happened not just at the level of the state but also at the level of the enterprise, as we see from the following case study of privatization.

The Lenin Steel Works—A Model Transformation

The transformation of the Lenin Steel Works (LKM) in January 1990 into a joint stock company was widely touted as a model of privatization. Let us see what actually occurred. Because LKM had been a loss-making company, it had been brought under direct state control. There was no enterprise council, and according to the transformation act there was no need to raise the founding capital by 20 percent, or one hundred million forints. Nevertheless, as we shall see, LKM did seek outside investment through the creation of internal KFTs. When it was turned into a joint stock company, the state became the major shareholder of its eleven billion forints in assets.

LKM faced seemingly impossible barriers to profitability under hard budget constraints. Raw materials had to be imported at increasing prices, much of its capital was antiquated, it suffered from considerable overmanning, and however hard it tried, it could not effectively enter Western markets because world competition was so intense. These constraints were real and operated quite independently of its management. The government had repeatedly bailed LKM out so that its management could present their operations as profitable. Nevertheless, at the beginning of 1990 the new corporation faced an accumulated debt on the order of two billion forints.

The company was essentially bankrupt, but desperately needed new capital for reconstruction. It had difficulty obtaining credit from national banks or government and so turned to the new source of finance provided by the privatization legislation, namely, foreign capital. It managed to attract about one billion forints' worth of investment from several companies, mainly Austrian and West German. However, partly because of political and economic uncertainties, these companies would only invest in particular parts of the enterprise, such as the continuous caster, the foundry, the electric arc furnace, and the rolling mills. By the middle of June (1990), the corporation contained twenty-six limited companies and joint stock companies.

Why were foreign enterprises prepared to invest in LKM? Surely there were more lucrative outlets for their capital? The foreign investors came in with strings attached. They were concerned not about the viability of LKM but with guaranteeing returns on their own investments. Some were able to exchange their investment for control over the distribution of LKM's products, lucrative price and trade agreements, while others extracted either guaranteed income returns on investment or guarantees on the profitability of the units in which they invested. The latter could be assured through the manipulation of internal transfer prices. Moreover, it was to the advantage of the central corporation to boost the profitability of internal companies with foreign investment, since that gave greater tax relief.

If some hoped that foreign investors would bring in new management who would reorganize LKM, then they were to be disappointed. They left the organization of steel production in the hands of the existing management. Two things, however, did change. First, there was a

multiplication of managerial hierarchies, since each RT or KFT had its own general director and managerial structure. Moreover, they received very high incomes for their new positions. At the same time, layoffs still seemed to be unacceptable. Apart from natural attrition, management decided to cut the number of employees in the central organization—employees who were now clearly redundant. Instead of laying them off, however, they sent them to the various RTs and KFTs, boosting their already swollen administrative ranks with what came to be known as "parachutists." This was not a way of increasing profit but of redistributing losses.

The second change also intensified problems of the past. Creating internal companies based on profits increased tensions between units over the distribution of costs and the determination of internal prices. The old conflicts between, say, the rolling mills and steel production, or between the continuous caster and the converter, intensified. Struggles came to be focused on the manipulation of internal prices, determined by the bargaining strength of the different units. Pressures on internal prices were so great that a "price censorship committee" was created which regulated prices in the "interests of the company as a whole." Still, power relations and not market relations governed the relationship between the interdependent units within the steel mill. The introduction of profit centers did not and indeed cannot give rise to greater efficiency or reduce costs where the units are part of a single integrated production process.

LKM managers soon realized that the creation of KFTs exacerbated rather than diminished old problems. The units which top management had once controlled now assumed an autonomy that was legally based. Still, what could they have done? They were trapped by the logic of spontaneous privatization. They could obtain external financing only by seeking assistance from foreign capital, which entailed limiting market maneuverability, multiplying managers, and disrupting production. Short-term survival came at the cost of long-term viability. They were left to their own devices without any clear guidelines from above. There was no national industrial strategy, because that would be tantamount to planning—considered to be a dangerous regression toward communism.

In the case of the transformation of LKM, only about 10 percent of the shares are held by foreign enterprises—the remainder being held largely by the Ministry of Industry. An alternative solution has been to enter into a joint venture with foreign capital, such as is occurring at

Ózd. There the West German steel consortium, KORF, is buying out 60 percent of the Ózd steelworks. Ózd was probably the weakest steel complex, and if the takeover is successful will essentially lose control of its future.

There is another alternative which some enterprises, like the sinter plant supplying iron ore to LKM and Ózd, are pursuing. Rather than lose control of the enterprise to the state or to foreign capital, they are thinking of selling shares to their own employees. This is becoming an increasingly popular idea among managers, although no company has yet succeeded in completing it. There are a number of reasons for the interest in employee ownership. In the first place, it may help managers retain control of their enterprise when threatened with state or foreign direction. They would also stand to gain materially if shares are distributed to employees in accordance with their income and seniority in the company. In other instances, management uses employee ownership to solicit the support of workers. The collapse of the nomenclatura system, and thus of support from on high, has left managers vulnerable to organized workers. Managers can no longer appeal to the state, to the party, or even to the trade union to repress working-class struggles, so they appeal directly to workers with promises of shares in their own company.

In summary, we have seen how "privatization" was seized upon by managers to protect their interests, wherever possible, through collusion with foreign capital or the state. When this broke out into scandals, the state created the SPA, which recentralized control over privatization. There seemed no way out: Either strengthen the old managerial class or intensify state control over the economy. In either case the gap between ideology and reality remained as wide as ever, between eulogies to "free enterprise" and the persistence of a hierarchical economy. The struggles between enterprises and the state so characteristic of the past are being reproduced in the present.

Just as under the old regime, so now one obvious way to narrow the gap between ideology and reality would be to introduce genuine socialization of the means of production.[15] By distributing ownership of state property to different institutions, such as municipalities, consumer associations, mutual benefit societies, and (most obviously) workers' organizations, the grip of the old elites would be broken. Giving power to groups independent of the state may be the most effective road to a market economy. Not surprisingly, most government ministries and particularly the SPA, have been adamantly opposed to such institutional ownership, which they claim, but with little evidence, would be

inefficient. They insist instead on natural or what they deem to be responsible ownership. Their reluctance to provide a genuine foundation for democracy by the dispersal of ownership, of course, reflects their class interests in becoming a state bourgeoisie.

In the final analysis, socialization of state property has not been realized because the social forces promoting it have been so weak and those opposing it so strong. To understand why this should have been the case, and particularly why demands for employee ownership have either not materialized or have failed, we have to turn to an analysis of the new regimes of production.

An Emergent Alternative: Workers' Councils

Rejection of the past and the mobilization of anticommunist ideology by all parties have been effectively used to prevent any form of collective organization by workers and to systematically exclude them from the political process. Unorganized before the present transition, the working class for the most part remains so. Mutual suspicions between intellectuals and workers have kept them apart so that workers have had to rely on their own resources. They have, therefore, been slow to take advantage of the political vacuum created by the withdrawal of the state and the collapse of the party, and to challenge the way privatization has been used to consolidate the preexisting power structure. The old Federation of Trade Unions continues in its old ways, claiming political neutrality in an attempt to recoup its lost legitimacy. At the enterprise, the old trade unions continue to forge an alliance with management as though nothing has happened. Despite this, the federation, as of July 1990, retains 3.5 million members, having lost only 800,000, mainly to a splinter group made up of technical, scientific, and other intellectual workers. The League for Independent Trade Unions, with loose links to the SZDSZ, has obtained a membership of only 50,000, which is itself far more than the Workers' Solidarity movement. Thus, the official trade unions continue to retain the allegiance of the overwhelming proportion of workers in industry.

Nevertheless, denial of any genuine representation for workers has also led to attempts at self-organization, which most naturally emerges in production—for that is where the destiny of workers is being determined, where the legacy of past class consciousness is most developed, where mobilizing power is most easily aggregated, and where the old trade union structures deny workers any self-defense. Workers' councils have sprung up around the country to seize the opportunities created by the autonomization of production politics.

Ellen Comisso has argued that trade unions protect workers as suppliers of labor power.[16] They are "extensively" organized and do not care about the fate of the individual enterprise. Workers' councils, on the other hand, respond to local conditions by defending the enterprise as a viable concern. Rather than being defensive in nature, workers' councils "include" all employees and perform a more entrepreneurial function. When trade unions fail to protect jobs and wages because they organize across firms, then workers are likely to turn to workers' councils. Thus, in contemporary Hungary, workers' councils are most likely to spring up where enterprises are being threatened with privatization, closure, or layoffs.

The following case studies confirm Comisso's hypotheses. In the first, a workers' council is established to combat layoffs and privatization. It fails because it is not inclusive of all employees. In the second case, management takes advantage of the new political order to create a workers' council to defend the interests of a division against enterprise headquarters. The division successfully establishes its independence and then disbands the workers' council. In the third case, a very successful handicraft firm establishes a workers' council and proposes employee ownership to counter threatened takeovers by foreign enterprises. Finally, we return to the Lenin Steel Works, where workers see the effects of the privatization described above. They create workers' councils to defend their present and future interests by demanding greater control over enterprise management.

A Workers' Council Aborted

Pét is essentially a one-enterprise town, with most of its inhabitants dependent on employment at the large chemical works, producing nitrogen products, mainly fertilizers. It is the biggest manufacturer of fertilizers in Hungary. The town itself is heavily polluted with the gaseous fumes from the plant, and employees have always lived in this unhealthy environment. But this became a secondary issue when the plant was threatened with partial closure.

It faced a shrinking market and falling prices. Heavily dependent on energy, it suffered a considerable setback when the Hungarian government decided to raise the price of natural gas, partially in response to the Soviet Union's withdrawal of subsidies for cheap energy. The company was caught in a pincer movement as costs increased at the same time that market prices for its products fell. It sustained heavy losses, and in 1989 the state took it over and the general director resigned. The emergency plan was to halve its three thousand employees. The union was closely connected to the old management and did nothing to resist the planned shrinkage.

Faced with layoffs, the workers rebelled against the trade union officials, and in August 1989 three hundred, mainly from the newest unit (NPK, built in the middle seventies), formed a workers' council. The background to the rebellion sheds light on the dilemmas of privatization and the legacy of the past. In the early 1970s the Ministry of Agriculture decided that it wanted to produce a new fertilizer specifically for Hungarian agriculture. Experts traveled the world to look for the best model for a new plant at Pét, and they decided to follow a more or less unique Norwegian enterprise. When the new unit, NPK, was finally finished in 1974, the energy crisis had already brought about dramatically rising costs of production. Moreover, the plant had been designed to produce a fertilizer for the average conditions of Hungarian agriculture, and it turned out that the average actually rarely pertained, so that demand was not as high as expected. In the most recent period, escalating costs of production, combined with an agriculture that cannot afford to pay for the fertilizer, have created a crisis for even this unit, the most modern in the enterprise.

To understand the unfolding events leading to the formation of the workers' council, we have to consider the specific production problems faced by the NPK plant. The new technology was very sensitive to changes in temperature and raw materials, and it took a number of years of experimentation before engineers finally knew how to bring it under control. Even then the operation of the plant depended on the expertise and experience of core workers and technicians to adapt very quickly to breakdowns. Because it was the last unit to be built at Pét, the workers there were less skilled and they were paid less, while the workplace environment was more dangerous and the work itself more exhausting than at the older units of the enterprise. Higher management was not interested in the specific problems experienced on the shop floor, and ruled, like at LKM, with a certain arbitrariness. Rumors were rife about corruption at higher levels, of managers stealing precious platinum or selling it cheaply to other enterprises for private returns. All these factors fueled discontent and higher turnover, disrupting production further. Management called for even greater efforts by those core workers who remained and upon whom the plant became increasingly dependent.

A strike was precipitated by the threatened departure of two of the three technical managers. In desperation, management increased their income by the very considerable amount of 250 forints a shift. This was the straw that broke the camel's back and workers walked out, disgusted with both management, who refused to recognize their increasing contributions under worsening conditions, and the trade unions, who were not concerned with their problems. It was at this point that a workers' council was formed, but it did not receive much support from the older units. In part this was due to a failure of leadership, but there were more important structural reasons. First, NPK was an independent unit and so there had been little communication between its workers and those in the other units. More important, the disciplinary regime was more despotic at the other units, where a powerful party apparatus instilled considerable fear among the workers. Workers were warned that if they joined the workers' council they would lose all their trade union benefits. This tempered the enthusiasm for the workers' council, which further lost credibility when it refused to participate in meetings with the trade union. In part because NPK was a newer unit and in part because management there depended upon an autonomous, self-organized work force, there was less fear and a greater political space within which to organize a workers' council. The workers' council still exists, but it is weak and concentrated in the NPK.

Receiving no support from management, the workers' council was simply unable to tackle the problems facing the enterprise. It was based in the NPK without the enterprise-wide support that was necessary for it to be effective. In particular, it had no response to the state's attempt to sell off the enterprise to a competitor for the ridiculously small sum of 100 million forints. Instead it was the creditors of Pét who refused to accept this bid. So the company was put up for auction after it had been appraised at 5 billion forints. The same competing enterprise offered to raise its bid to 600 million forints, but creditors again were not satisfied, and it was only in a second auction organized by the state holding agency that the bid went up to the more acceptable 1.75 billion forints. The workers' council offered no alternative to the sale, such as an employee buy-out, and so the company's fate was negotiated between the state holding agency and the creditors.

The Workers' Council as a Tool of Management

At Mosonmagyaróvár, the workers' council was more successful. In 1977 this profitable factory, which produced agricultural machinery, was taken over by the successful giant Rába company, internationally known for the parts it produced for Ikarusz buses, and for its agricultural and transportation equipment, trucks, and other large vehicles. After Mosonmagyaróvár had been taken over by Rába, its profits were drained away to Rába headquarters in Györ. The employees who were laid off by Rába top management as a result of deliberate shrinking of Mosonmagyaróvár's product range were asked to commute to Györ.

In 1989 a plant manager at Mosonmagyaróvár decided to stand up for the division's independence before it was too late. Despite the party's attempts to dissuade him, he called a meeting of the employees, at which they decided to form a workers' council. Horvát, the general director of Rába, known throughout Hungary as the Red Baron because of his dictatorial style of management, denounced the workers' council, which then called a strike, demanding that Mosonmagyaróvár be given back its autonomy with appropriate distribution of profits.

Horvát was due for reelection as general director by the enterprise council, which hitherto had been stacked with his own nominees. Realizing that in these new political times he would not control the elections of the new enterprise council, Horvát called an extraordinary meeting of the old enterprise council in order to get himself reelected. Legally, any decision of the enterprise council can be challenged within thirty days. So the president of the workers' council and two workers courageously filed a grievance against the legitimacy of Horvát's reelection. The court decided in favor of the workers' council, Horvát resigned, and Mosonmagyaróvár regained its independence.

It was a sign of the times that such a powerful figure as Horvát could be dislodged through legal channels by three employees taking out a grievance against him. However unpopular, Horvát had established himself as a pillar of the state managerial class. With the aid of the party he had built up Rába into a despotically run but efficient state enterprise. His workers and managers were relatively well paid so long as they did what they were told. Once the party apparatus crumbled, the emperor's power base was destroyed and a new general director was installed. The workers' council, deliberately constituted as independent of managerial, party, and trade union structures, was the most effective weapon against the incumbent power structure. Having achieved their goal, managers at Mosonmagyaróvár withdrew their support for the workers' council, which then collapsed because workers had not been effectively mobilized behind it, and also because it had no new goals.

But the story does not end here. In the summer of 1990, the company, now independent of Rába, was divided by new conflicts over its future. Leading forces within management wanted to enter into a joint venture with an Austrian company and close down all the "unprofitable" parts of the enterprise. This would entail massive layoffs. The workers' council was resurrected to fight against this plan in the interests of all employees. Whatever the immediate outcome of this struggle, the prospects for Mosonmagyaróvár and its workers' council are not bright, since for over a decade Rába made no substantial capital investment in the plant. Workers' councils have a better chance of survival where the enterprise is at least potentially economically viable without being dependent on external financing. We turn now to such an example.

A Workers' Council Pursues Employee Ownership

Herend is one of Hungary's oldest and most successful porcelain factories. It produces delicate hand-painted vases, bowls, dinner, tea, and coffee services, and small sculptures, 85 percent of which are sold abroad. There are about 2,100 workers at the factory, many of whom are highly skilled painters. Most of the workers actually live in the Herend village, so that making porcelain has become part of the community's tradition.

Herend has always been a profitable enterprise. The secret of its success lies with the inherited skills of its craft workers. Thus, in August 1989 management instigated a revolt when it awarded bonuses to itself amounting to over 150,000 forints while workers received only a few thousand. What incensed the workers most was that managers' bonuses went up while their own fell compared to the previous year. Perhaps in the past, management would have gotten away with it, but with the eclipse of the party, management, as in the case of Rába, was left undefended. One member of the enterprise council who heard about the bonuses began to organize a workers' council. This was viewed as an alternative to the trade union, which was entirely discredited by its past and continued association with top management. Rapidly the membership of the workers' council spread through the factory. Within three months 1,800 employees, about 85 percent, had joined the workers' council.

The question quickly emerged: What was the status of the workers' council? Whom did it represent, what rights did it have, what interests would it pursue? Although there was some interest in returning to the council idea of 1956, the leadership did not want to take over managerial functions, but rather wanted, first and foremost, to play the role of an effective trade union. With the help of an MDF lawyer they decided to fight the case for their legal recognition through the courts. They took advantage of the law of associations, passed at the beginning of 1988, which established the rules for creating new organizations and

associations (although it was meant mainly for political parties). In September of 1989 the workers' council successfully gained rights to represent workers in bargaining with management and access to trade union property. Although they did not want to reduplicate the mistakes of the old trade union, still among their members could be found key members of management.

At this point the popularly elected workers' council wanted to play the role of a trade union with perhaps certain codetermination rights in management. They were not aware of nor interested in possibilities of privatization. Indeed, they wondered why they couldn't remain a state-owned enterprise. However, when it became clear that privatization was likely and that it would involve a foreign buy-out, the idea of employee ownership became more attractive as a means of exercising some control over management as well as distributing profits more equally. The workers' council effectively thwarted the general director's intentions to enter into a joint venture with a foreign buyer. A joint committee for planning the transformation of the company was formed with 50 percent managers and 50 percent from the workers' council. The general director's attempt to discredit the idea of an employee stock ownership plan (ESOP) only fueled his unpopularity, contributing to his final downfall.

In June the workers' council secured a huge representation in the enterprise council of Herend and ousted the general director. They became fully committed to a worker buy-out of the enterprise, although there was no legislation which would facilitate it. A transformation plan is being prepared that closely follows the guidelines of an ESOP wherein workers would be able to form a trust or foundation that would hold the shares, which would be paid for out of future profits. Herend is a best-case scenario for an employee buy-out, since the capital is mainly human capital, the company is rooted in the community, and it is profitable. The president of the workers' council was elected to parliament as an MDF candidate where he is promoting ESOP legislation. Last but not least, the workers' council has already established its legitimacy by first displacing the old trade union and then ousting the general director.

Workers' Councils at the Lenin Steel Works

The above three cases, but particularly the case of the Herend porcelain factory, were given considerable publicity by the MDF, which cautiously included workers' councils in its election platform. The idea spread so that by July 1990 there were over 150 officially registered workers' councils in the country. By November the figure was 600, involving ninety thousand members. Among them are the workers' councils at the blast furnace, the foundry, and the Combined Steel Works of what was the Lenin Steel Works. Hearing about Herend and helped by an MDF lawyer, an old-time leading operator began organizing a workers' council in the blast furnace. When we talked with him in June 1990, he recalled the importance of his experiences in the 1956 council movement when he was seventeen and a young employee at LKM. He and his fellow organizers had taken the constitution of the Herend workers' council as their own and presented it in court for registration in January 1990. Although the court was able to put up some obstruction, in the end it could not stop the formation of the workers' council, which was finally given legal approval in the middle of April. In June (1990), of the 300 workers in the blast furnace, 120 were members of the workers' council and 80 were still enrolled in the old trade union, while 100 were not members of either organization. From the blast furnace the idea has spread to the Combined Steel Works and the foundry. The struggle with management for extending the rights of workers is only just beginning.

What motivated the formation of the workers' council at LKM? As elsewhere, the most basic impetus was opposition to the old-style trade unions, who colluded with management to defend the interests of the enterprise rather than those of workers. The subordination of the trade union was symbolized by its automatic signature of any managerial decree, whether or not it was in the interests of workers. The workers' council vowed that it would defend individual workers against arbitrary managerial sanctions. Its most ardent supporters go further and want to see workers' councils exercising control over management and even organizing elections of managers. Finally, the leadership of the workers' council wanted to promote employee ownership, although they were not sure how this was to be accomplished. In this last regard they differed from the council ideas of 1956, which usually took for granted state ownership of the means of production.

Opposition to trade unions follows lines anticipated by Comisso. Rather than establish "extensive" organization across industry, the workers' council seeks to build up an "inclusive" worker organization from the shop floor. Membership dues will not be sent upstairs to cover the costs of union officials at the enterprise, branch, and national levels. Instead, they will be used locally for the membership: to employ lawyers to pursue grievances, to distribute benefits, and to create a strike

fund. Since the movement tries to establish shop-floor democracy and restore dignity in the workplace, the two national organizations of workers' councils are still very weak.[17] Without institutional power, workers' councils are very vulnerable to state or managerial offensives.

The Significance of Workers' Councils

We are not saying that workers' councils are the wave of the future. Unless politically institutionalized (as in Yugoslavia) or based on collective ownership, they are bound to be weak and parochial. Nevertheless, they do reflect specific conditions of the transitional period: (1) hostility to trade union bureaucracy, which failed to defend the interests of workers at the level of the enterprise; (2) the legacy of working-class consciousness; (3) the continued exclusion of workers from the political process, both at the level of the enterprise and at the national level; (4) democratization, which in giving autonomy to parliament and legal institutions also gives autonomy to production politics; and (5) privatization, which on the one hand lodges crucial decisions at the level of a popularly elected enterprise council, and on the other hand creates despair by multiplying bureaucratic irrationalities.

What are the implications of workers' councils, and more generally the transformation of production politics, for working-class struggles? Liberal democracy has led to the withdrawal of the state from the enterprise as a visible organizer of exploitation and domination. Out of the fusion of production and state apparatuses it creates their relative autonomy, thereby bottling up conflicts within the enterprise. There are no longer the painting rituals that bring workers together to celebrate communism and demonstrate the gap between ideology and reality. Capitalism is celebrated in the commodity, not in the public ritual, and this has an atomizing, pacifying effect.

To be sure, the rituals of democracy will call attention to the gap between representation for all and the political exclusion of workers qua workers. You cannot build a new society out of the rejection of the old. Anticommunism cannot sustain the new regime for long and cannot be mobilized to continue the exclusion of workers. The logic of parliamentary democracy will lead to one or more of the major parties' explicitly defending the interests of workers, or to the formation of a labor party. If this were to happen, workers might be expected to break out of their current apathy and cynicism toward national politics. But such a possibility presumes the stability of democracy, to which we turn next.

The State Socialist Road to Capitalism

Social scientists have been searching for parallels and models with which to understand Eastern Europe and the Soviet Union. They have gravitated around theories of regime transition, developed to comprehend processes of democratization in Latin America.[18] This "transition school" calls attention to the indeterminacy of regime change and the fragility of newly formed democracies. Rather than argue that there are specific conditions—cultural, socioeconomic, educational, etc.—conducive to democratization, they consider regime transition as a game played within objective constraints but with uncertain outcomes. For the most part these models give scant attention to economics, and therefore miss the distinctiveness of the double transition that is being attempted in Eastern Europe.

Adam Przeworski is exceptional in his explicit attention to the mutual conditioning of economic and political orders. Based on the Latin American experience as well as studies of Western Europe, his argument is that liberal democracy conserves the existing economic order.[19] In their origin, democracies are the product of a compromise among classes, and in their effects they organize class compromise. Instead of being an instrument of economic transformation, liberal democracy depends upon a growing economy that can provide the economic basis for class compromise.

We have made a similar argument for Hungary. Far from being a threat to the old dominant classes, liberal democracy provides the screen behind which they continue to wield power and control the economy. The smoothness of the transition in Eastern Europe, particularly in Hungary, can be attributed to the way in which state managers have been able to endorse liberal democracy as being in the interests of all while reconstituting their own class power. Still, if the economy declines, so that giving to one class always means taking away from another, then the class compromise upon which democracy rests will collapse and democracy's life will be short.[20]

Counterpoint: The Transition from Capitalism to Socialism

We have to look elsewhere for models of economic change which illuminate the question of the transition to capitalism. What can we learn from theories of the transition from capitalism to socialism? Here too, many had expected that democracy would be the instrument of transition. According to the classical Marxist model the working class would become increasingly homogeneous, degraded, impoverished, and numerous. It would consolidate its power in the form of a party which would be voted into office with a mandate to expropriate control over the means of production and install socialism. The project failed for many reasons: Workers weren't interested in socialism; there weren't enough workers to vote socialist parties into office without the support of other classes; party and trade union leadership developed interests of their own which dovetailed with the perpetuation of capitalism; and when socialist parties did assume power and tried to introduce socialist measures they faced capital flight and economic decline, which either discredited their socialist goals or led to their removal by military coup. So socialist parties gave up trying to make the transition to socialism and instead tried to give capitalism a socialist character. Social democracy was the compromise between achievable but irrational capitalism and unachievable but rational socialism.

Just as liberal democracy cannot bring about a transition from capitalism to socialism, so now it is equally incapable of bringing about a transition from socialism to competitive capitalism. In endowing the enterprise with autonomy it only preserves its old institutional form. The socialist enterprise pursued strategies attuned to the hierarchical economy—strategies which gave rise to distinctive enterprise structures, as described here for Bánki and LKM. Preserving these structures in a capitalist environment can only intensify irrationalities, as we saw in the case of the privatization of LKM. It is naive to think that laissez-faire will introduce hard budget constraints, or that hard budget constraints will immaculately transform structures and wipe away resistance from managers within the enterprise. It is difficult enough to transform the United States corporation already adapted to the market, let alone the state socialist enterprise adapted to a state-regulated economy.

If there is no evolutionary road from capitalism to socialism, there also may be no evolutionary road from state socialism to capitalism. Just as bolshevik theory insisted on a revolutionary transition from capitalism to socialism, so now in that same country there is a growing lobby that argues for a Pinochet-type dictatorship to bring about the transition to capitalism. However, proponents of dictatorship don't show how such centralization could ever subsequently lead to decentralization. They ignore that even in Chile, Pinochet's radical privatizing free-market policies led his government to intervene in the economy as much as did the socialist government of the Unidad Popular.[21] That liberal democracy won't deliver capitalism doesn't mean dictatorship will.

The Ambiguous Role of International Capitalism

However, the transition from socialism to capitalism is favored by at least one factor absent in the reverse movement, and that is the hospitable world context. Socialism in one country may indeed be impossible, given the pressures of the surrounding capitalist world economy, but this is not a problem for a country seeking to make a transition away from socialism. Indeed, once a nation opens its economy to the world capitalist order, its development depends on its ability to compete with more advanced capitalist nations on terms defined by the latter. In this respect, Hungary is simply not in a position to compete with Western Europe, the United States, and Japan. The existing state enterprises adapted their organizational structure to a closed hierarchical economy, which makes adjustment to an open market economy difficult. We have already referred to the lucrative deals foreign investors have negotiated and at what costs to Hungarian development. We should also mention the huge international debt, estimated at $20 billion, which makes Hungary beholden to foreign banks and agencies such as the IMF and the World Bank. Finally, by relinquishing its imperial role, the Soviet Union deprives Eastern Europe of access to cheap energy and guaranteed markets for its goods. At the same time, Soviet withdrawal leaves Hungary vulnerable to economic pillage by capitalist nations, most obviously Germany—once it has set its own house in order. The international forces promoting capitalism in Hungary will also be responsible for its underdevelopment.

But there is another implication of the transition taking place within a world capitalist order. In the attempts at constructing socialism there were no concrete models which guided the transition. Socialism existed in the dreams of its protagonists and, to a sadly limited extent, in the minds of Marxist intellectuals. In the transition to capitalism, however, there do exist examples of successful capitalism, which Hungary and other Eastern European countries aspire to emulate. Here lies the seductiveness of capitalism, which holds out the possibility of achieving a Swedish welfare state or German industrial efficiency even though the vast majority of capitalist societies are poor and repressive. The ideologues of capitalism say that Hungary can move "from rags to riches" if Hungarians will only make sufficient sacrifices, if they will work hard and accept material deprivation today as the cost of a radiant future tomorrow.

The Hungarian dream of upward mobility in the global order is bolstered by the prevailing wisdom that Hungary's development was held back by its communist past, so that shedding that past will automatically bring development. This view simply fails to take into account the problems of late entry into a capitalist world system. No less than the transition to socialism, the transition to capitalism is based on an illusion, not on a radiant future that has not been achieved, but on one that has been achieved. It is based on the concrete and powerful fantasy that Hungary can become like Sweden or even South Korea rather than follow the path of Tanzania or Guatemala.

Realistic Possibilities

Just as in the past state policy was based on a single road to socialism, so now state policy veers toward a single road to capitalism. The illusion that somehow Hungary can escape the vice of international capitalism is the mirror image of the vehement denunciation of communism. Since communism was all evil, capitalism must be all beneficent. Such a view is, of course, nurtured by the emergent political bourgeoisie and its international creditors. Nevertheless, there are skeptics who recognize that Hungary cannot recapitulate the trajectory of the leading capitalist societies. Instead they explore the possibility of an ill-defined "Third Road," which is neither capitalist nor socialist. The Third Road has had a long history in Eastern Europe, and Iván Szelényi is one of its most articulate recent spokesmen.[22] Writing before the collapse of state socialism, he argued that the history of Hungary has been one of interrupted embourgeoisement, and distinctive to Hungary's contemporary trajectory is the return to a bourgeois road via an emergent petite bourgeoisie. His claims are supported by the continued efflorescence of the second economy and private accumulation in agriculture. However, he ignored the problems of the state sector upon which the private sector has depended, assuming that it can be slowly displaced by an indigenous bourgeoisie. While it is true that the petite bourgeoisie have developed considerable muscle, as witnessed in recent strikes by retail-outlet employees and taxi drivers, nevertheless they cannot provide the basis of a modern economy located in a capitalist world system.

A fear lurks, then, that the Third Road is not the one Szelényi is thinking of—but a Third Road to the Third World. If the first road to the Third World is the colonial road and the second is the road of dependency, the third is the socialist road. Such a pessimistic scenario is more likely to emerge from studies of the state sector. As we have seen, in this realm property relations are not easily changed and a plausible strategy would be to work within the limits of the public enterprise. Like the social democrats under capitalism, free marketeers under state socialism could make the best of a bad job by developing a form of state capitalism. In effect this is what János Kornai proposes.[23] Because he sees the dangers of trying to install capitalism overnight, because his goal is to return to a mythical past of perfect competition and hard budget constraints, and because of his profound understanding of the resilience of the state socialist economy, he accepts that the state sector will remain for some time to come. He proposes that in order to facilitate the transition, the state sector be made to work more efficiently and subsidize wherever possible the private sector.

The democratic state must be invoked to enforce hard budget constraints through political means, by denying enterprises the right to bargain over prices, subsidies, allocation of resources, access to foreign exchange, and so on. But even he doesn't explain how an anemic parliamentary democracy, itself fragile, can possibly regulate state enterprises. Parliamentary democracy exists precisely to deflect political attention from the extended reproduction of the centralized economy. If the state is to begin to regulate the economy more effectively, if it is to prevent the degeneration of planning into what David Stark has aptly called "clanning,"[24] then it will require a much more radical democracy than the trappings of liberal pluralism.

All roads seem to lead to the same economic and political impasse because they make no attempt to dislodge the incumbent dominant classes or to make them accountable to subordinate groups. A more promising prospect for meaningful democracy, not surprisingly opposed by the political bourgeoisie, would be to give different groups a stake in the Hungarian economy by dispersing ownership. It is said that private ownership is the necessary basis for democracy because it disperses power. In fact, private ownership concentrates power and turns liberal democracy into a mockery of its ideals. Institutional ownership would provide the basis for a more genuine participation of its citizenry in national life. When public bodies such as local councils, employee associations, and consumer associations own property, they will have both the capacity and the motivation to participate in politics. This could counter the massive political apathy in the country at large.

On the other hand, employee ownership is said to be inefficient because workers are not "responsible owners." However, workers are likely to be as responsible as the political bourgeoisie, whose credibility has evaporated in a trail of appalling scandals. With an ownership stake, employees would have an interest in making their enterprises more competitive. They would be more committed to the viability of their enterprises. We have already seen in earlier chapters just how astute workers are in their understanding of production and how managers are more often the source of economic irrationality. For workers to participate in management through some system of codetermination would only be building on one of the positive legacies of a shortage economy, namely the legacy of collective self-organization of work.

Finally, employee ownership would not only make significant contributions to democracy and enterprise efficiency, but it would also be more just. Workers bore the brunt of the past, and they will have to bear the brunt of any future transition, so it is only just that they be given a say in their own destiny through the extension of property rights. They, more than the emergent political bourgeoisie, deserve the fruits of their past labors in the form of ownership of their enterprises.

All of which is not to say that employee ownership is some universal panacea. Rather, given the array of alternatives in the present economic and political context, it is an appropriate avenue to be pursued, along with other strategies, on the road to capitalism.[25]

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Lenin thought that imperialism was to be the last stage of capitalism. He was wrong. His successors thought that Soviet "communism" would mark the last stage of capitalism. They too were wrong. Like imperialism before it, state socialism unwittingly laid the basis for the development of capitalism on a world scale. As capitalism increasingly transcends national barriers it becomes, for the first time, truly global. But at the same time its irrationalities will become more palpable and irrevocable. So Marxism will once more come into its own as the major analytical tool with which to criticize these developments.

But will Marxism also be able to articulate a feasible alternative to capitalism? The Marxian repudiation of utopian socialism in favor of scientific socialism was a rhetorical device which left Marxism without concrete visions of a future beyond capitalism. Because socialism was "inevitable," classical Marxism regarded blueprints as unnecessary as well as undesirable. This fatal omission made it possible for the voices of Soviet Marxism to proclaim Stalinism as the realization of socialist ideals. Now, the death of Marxism-Leninism offers an opportunity to reexamine the history of the Soviet Union, whose tragedy was to place socialism on the agenda of world history at the same time that it faced conditions which guaranteed its failure. But this is not a call to dismiss the Soviet Union as a gigantic mistake. Its history is full of lessons for any future vision of socialism—visions that will return with a vengeance as capitalism, unleashed from restraint, brings such devastation and destruction as to threaten human existence. Inevitably, capitalism will revive the struggle for a radiant future—a future in which history is reappropriated by its makers, in which material insecurity is abolished, and in which individuals are allowed to develop their potentialities. When that time comes, socialists must be better equipped with visions of what they want and how it might work. In the meantime the epigones of Adam Smith should make the most of their honeymoon, because it will not last. And when the pendulum swings there will be no evil communism to blame. The struggle for socialism is at its dawn, not its dusk.

Notes

Preface

1. Chapters 2 and 3 are based on fieldwork conducted for two months at Bánki during the summer of 1984. Chapter 2 was authored by Burawoy as "Piece Rates, Hungarian Style," *Socialist Review* 79 (1985): 43–69. Chapter 3 was jointly authored by Burawoy and Lukács as "Mythologies of Work: A Comparison of Firms in State Socialism and Advanced Capitalism," *American Sociological Review* 50 (1985): 723–37. Chapters 4 and 5 were based on fieldwork conducted at the Lenin Steel Works during the period 1985–87. Chapter 4 was authored by Burawoy and Lukács as "What is Socialist about Socialist Production? Autonomy and Control in a Hungarian Steel Mill," in *The Transformation of Work*, ed. Stephen Wood (London: Hyman and Unwin, 1989), pp. 295–316, while chapter 5 was written by Burawoy as "Reflections on the Class Consciousness of Hungarian Steel Workers," *Politics and Society* 17 (1989): 1–34.

Chapter One: A Sociological Diary

1. Alexander Zinoviev, *The Radiant Future* (London: Bodley Head, 1981).
2. Michael Burawoy, *Manufacturing Consent: Changes in the Labor Process under Monopoly Capitalism* (Chicago: University of Chicago Press, 1979).