HUNGARIAN LESSONS FOR NORTH KOREA'S ECONOMIC TRANSITION

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The paper below aims at introducing the example of Hungary, a country that has started its transitionary period much before 1989, to readers in Korea, North and South alike. Needless to say, policy makers in the North can draw more lessons from it, as it is to show how an economy under the system of central planning and then an organic part of the socialist world managed to move towards an open market economy by introducing its new economic mechanism (NEM). At the same time, specialists in South Korea, working on reunification, can get some information what can be expected to happen in the North on the way leading there. The author points out at the beginning that he does not believe in copying other countries' examples, but he thinks there are certain elements in various development paths which might be worth while considering. To put it in another way, it is no good to try to 'invent' something that has been tried by others already. As opposed to the cliches often referred to in technological development, i.e. latecomers have the advantage of copying or, to put it in a nicer way, making use of or incorporating the knowledge accumulated by others, in economic and social development this strategy or tactics might not be fully true. Here it is the early starters that enjoy the advan-

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tages even if they have to carry some extra burdens as well. In Hungary, to increase the low efficiency of the economy, the government ordered a change from above. The main goal was to replace the rigidity of centralized command and to delegate power, in fact the right and the courage to make decisions, to individual enterprises. The changes had to be done very slowly, carefully and diplomatically. To begin with, the paper summarizes the gist of these reforms, and then gives a detailed analysis of the changes which were introduced in the framework of the NEM. The decisions regarding the changes in the system had been preceded by research studies, detailed and comprehensive discussions regarding several aspects and phenomena of Hungarian economic development. These studies and discussions revealed some causes and deficiencies and raised a number of reasonable propositions for their elimination. Of all these efforts, some generally accepted conclusions have resulted, which are also given by the author. A special part of the paper deals with Janos Kornai's, the world famous Hungarian economist, general evaluation of the reform, and reviews extensively his statements regarding the non-state sector as written by him almost two decades later. In Kornai's view, the most spectacular trend of the Hungarian reform process was the growth of the private sector. The formal part of it employed mainly craftsmen, construction contractors, shopkeepers, and restaurant owners, who either worked alone or were assisted by their family members or a few hired employees. Kornai coined their activity the legalization of 'small capitalism.' In the next sub-chapter, the author gives his views on some of the most important dilemmas countries face on the road of transition. His answer to almost all of them is not an either-or type solution, rather a mixed one. This is not only to express his feelings that finding compromises, making decisions on a consensus basis are absolute musts in democratic politics (in the widest sense of the word), but also to reflect the experiences gathered so far by the countries which have already taken this path of development. The dilemmas he touches upon are

autarky vs. globalism, similar vs. different sizes in economic groupings, shock therapy vs. gradualism, reforms from above vs. from below, and the role of the market vs. that of the state. The author finishes his paper by calling the attention of readers to some problematic sides of liberalization. He point out that the experience of Hungary shows that a consensus-based 'censorship', combined with self restrain, would have been very beneficial. In this regard, just as in respect of choosing a more environment friendly development path, the country could and should have avoided repeating the mistakes of the countries which preceded it by decades in economic and social development.

Introduction

On hearing the news this summer that North Korea was experiencing with the introduction of market elements into its formerly rigid planned economy I was not surprised at all. As a matter of fact, I have long been preaching about my belief that North Korea will have to join the world community for a number of reasons. First of all, after the People's Republic of China opted for opening up at the end of the 1970s, and a decade later the former socialist countries of Eastern Europe have also made their revolutionary changes towards the market system, all those few countries that have stuck to their systems of command economy were facing extreme difficulties. On the other hand, the case of the DPRK is a special one as its reunification with the South, sought after by the people of the same nation yet living in strict separation from each other for about half a century, has been in the offing for quite a while. Finally, this reunification has got encouragement, no matter if in an ambivalent way, by the main political and economic role-players of the world (the United States, China, Japan and Russia), and recently a number of West-European democracies have established diplomatic relations with the North.

As my country, Hungary, has gone through the huge, or even epochal changes North Korea is still facing nowadays, and happens to look back on good contacts with the DPRK, while it was the first among the former socialist countries to normalize its relations with the Republic of Korea, I thought some of the experiences of Hungary might offer some lessons and therefore be well worth considering for policymakers in the North, and for those in the South, who are working on the national unification of the two parts of Korea. The only reason that could have kept me back from rendering this service was that I did not want to appear as a self-appointed pettifogger. This last obstacle, however, has been removed by the kind invitation of KINU, who asked me to write this paper. I sincerely hope that I will be able to live up to their expectations.

Parallels between far-away countries: Are they valid?

Before anybody would object to my using Hungary as an example to North Korea on the basis that the two countries are far away from each other and they represent completely different societies and historical traditions, let me remark that I myself do not believe in all-purpose models for economic and social development either. Each and every country should and does have its own peculiarities and, for the same reasons, rigidities too. Yet, on the basis of historical experience, certain paths in development seem to repeat, and therefore, reinforce themselves.

On the other hand, interrelationships might also be established between surprisingly far-away regions. As an illustration, let me quote Professor *Akira Kudo*, University of Tokyo, who, in his study on the changes in the economic relations between Japan and Europe[1] suggested that "the collapse of the Japanese political regime of 1995 … may be seen as part of the chain reaction to the European upheaval." He went on to say that "… the Japanese economy has grown too large to be neglected in explaining the present socio-economic upheaval in Europe. On the contrary, Japan's economic power has been one of the important factors responsible for triggering the upheaval. In fact, European efforts to unify the European Community market by the end of 1992 might be said to have been undertaken primarily as a European response to the economic challenge posed by Japan. One might also say that the collapse of the socialist systems of the former Soviet Union and Eastern Europe was prompted, to a large extent, by the weakening of their economies under the overwhelming impact of the rapidly growing economies of East and Southeast Asia with their close links with Japan's economy and private firms."

The early starter's advantage

As opposed to the cliches often referred to in technological development, i.e. latecomers have the advantage of copying or, to put it in a nicer way, making use of or incorporating the knowledge accumulated by others, in economic and social development this strategy or tactics might not be fully true. On the one hand, there are certain international and domestic opportunities, most often historic ones, which must be seized whenever they arise. On the other hand, delayed action, a kind of wait-and-see attitude, might hold out the hopes of avoiding some mistakes, yet the loss of unexploited chances would often prove to be a mistake. Therefore, it must be one of the difficult tasks of political and economic leadership, or for that matter of opposition forces, to make

1 "A Partnership of Imbalance: Changes in the Japanese-European Relations," University of Tokyo, Institute of Social Science, *Occasional Papers in Capitalist Economies and International Relations*, No. 9, March 1995, pp. 1-2.

the right judgements and decisions when the time for change has come. Judging by the experience of Hungary, we could not have been as successful with the process of transition from the former system to the new one between 1989 and today, if we had not gone through a preparatory phase, which was started as early as in 1968, with the introduction of the new economic mechanism (NEM).[2]

Before getting the readers acquainted with details of this new system of economic management, let me illustrate why I think that Hungary might be considered an example for successful transition.[3] Hungary's GDP fell by approximately 20 per cent between 1989 and 1993, but ever since it grew incessantly, thus reaching its 1989 level after a decade, and showing a yearly 4 per cent growth rate on average in the last four years.[4] Inflation and unemployment were fought with good results: the top rate of the former was 32%, that of the latter was 12%, whereas both of them are at the level of 5% today. Our foreign debts stood at USD 32 billion at their highest, while they went down to USD 10 billion by now. Before our systemic changes, some two thirds of our foreign trade was with Comecon member countries, as opposed to an even higher proportion taken up today by the Western world. Needless to say, such a structural change in our trade could not have been accomplished without a basic restructuring of our domestic

2 The acronym 'NEM' as a word in Hungarian language means 'no,' so we might say that Hungary said no to the former system.

3 I fully share the views of my colleagues and friends who say that it is perhaps better to talk about transformation than transition. Two papers that use this argument are e.g. Eva Ehlich - Gabor Revesz: Transformation and catching up in Central European countries: Experiences and lessons. Budapest, March 2002, and Tsuneo Morita: Facts and lessons of ten years of system transformation in Central European countries. Nomura Research Institute, Budapest, March 2000. My own contribution to this debate on definitions is that one can only use the term 'transformation' on an *ex post* basis. Therefore, in view of the fact that we were to offer lessons for North Korea, it seemed more appropriate to use the *ex ante* term, i.e. 'transition.'

4 This achievement might not sound too successful to East Asian ears, but by European standard it is still remarkable.

production either. Otherwise, demand from the side of market economies in the West would not have been able to replace that from the former socialist countries. This structural change came basically as a result of the privatization and trade liberalization process that have taken place in Hungary right after 1989, introducing or—as we shall show hereunder—rather reinforcing the impacts of changes in technology, productivity and management. By today, roughly 80 per cent of our economy has been privatized, 70 per cent of our exports originate from companies with total or partial foreign ownership.

As I tried to point out at the outset of this sub-chapter, Hungary had an advantage in its transitory period by its lead time starting with the NEM in 1968. It is true, though, that some other East European countries, especially Poland and (then) Czechoslovakia, have also experimented concurrently with similar policies, yet, for different reasons, these policies did not bring the same results.[5] In Hungary, to increase the low efficiency of the economy, the government ordered a change from above. The main goal was to replace the rigidity of centralized command and to delegate power, in fact the right and the courage to make decisions, to individual enterprises. The changes had to be done very slowly, carefully and diplomatically.

If one has to summarize the gist of these reforms the following points come to mind:

- A shift from quantitative plans, most often based on physical terms, to financial regulations. The introduction of market-related prices, rents, taxes and tariffs. Decisions were delegated from ministries to big companies. Bureaucratic command from central planning authorities was stopped.
- The introduction of a three-tier price system, with fixed, limited and

5 Poland took the road of combining an increased level of reliance on foreign loans with central command, while Czechoslovakia's impatience to wait for political changes has brought not only Russian tanks but Soviet-type economic planning back.

free prices. The sphere of free prices was to be expanded in order to establish a partially free market. Government subsidies were to be cut back.

- As opposed to earlier accounting tricks used by companies in order to show their being productive and 'profitable', it was real profits that came to the fore as main indicators. After-tax profits were divided into two parts. One part was kept by the company for investment and development, while the other was given to the employees as a bonus.
- Companies were given greater freedom to decide on their own investments, credits, or hiring and firing policies. Efficiency and profitability started to play an important role throughout the economy. The setting up of small-scale private businesses were accepted.
- The former central system of resource allocation was dissolved. Companies were to negotiate with each other on the basis of demand and supply, thus using real market prices. Some companies and more particularly certain deals, however, were exempted from this general rule, in order to secure 'national interests.'

The reforms of 1968 - A more detailed analysis[6]

When elaborating the new system, Hungary was led by the endeavor to increase the efficiency of planning and other economic activities, with a view to accelerating the rate of development. The decisions regarding the changes in the system had been preceded by research studies, detailed and comprehensive discussions regarding several, not quite satisfactory, aspects and phenomena of Hungarian economic development. These studies and discussions revealed some causes and deficiencies and raised a number of reasonable propositions for their elimination. Of all these efforts, some generally accepted

6 This sub-chapter is basically a review of the first sub-chapter of "Principal features of the new system of planning, economic control and management in Hungary" by academician Istvan Friss, from the book, also edited by him: *Reform of the Economic Mechanism in Hungary*, Akademiai Kiado, Budapest, 1971.

conclusions have resulted, which have created the basis for the decisions that were taken afterwards. The most important ones may be summarized as follows.

1. In the former system of planning and control the industrial, commercial and other enterprises were obliged to observe a number of so-called plan indicators, each setting a target to be attained or a limit to be observed. These indicators were derived from the national economic plan but were mostly related only indirectly to that plan. They limited the scope of decision of enterprise leaders,[7] restricted their chances of, and their inclination to, initiating any changes, just as their ambitions and sense of responsibility. These indicators could not and, in fact, did not reckon with the local endowments and requirements of the enterprises and, therefore, did not help and often even hindered the choice of the most favorable, economically most efficient solutions, i.e. the most rational utilization of the available resources.
2. The national economic plan, which has been the number one priority in the former system, played the role of providing for the main proportions that would permit the most favorable development. The new system of economic control and management, in turn, had to ensure, first, the realization of these proportions; second, the complete freedom and responsibility of decisions—in a framework of legal rules—on the part of competent leaders, who were not sufficiently aware of the local possibilities and conditions; third, that a market controlled mainly, though not exclusively, by means of economic regulators and a system of incentives acting on individuals should correctly orient those leaders about the genuine needs of society as a whole.
3. The national economic plan was also meant to establish the main

7 Mind the words: not company managers! — A. H.

objectives of the national economy in such a way that it could ensure the most favorable material and cultural development of society, and to determine the allocation of resources available for their realization. In the new system of national economic control this function of the plan was combined with the function of the socialist market.[8] This combination made it possible to obtain a truer picture about the partial processes going on in the economy, about the perpetually changing needs of society and, especially, of the individual consumers, than we were able to obtain in the past. This market was not simply the theatre of an unlimited assertion of spontaneous processes; it was affected by economic and administrative regulators serving to realize the major objectives laid down in the national economic plan. A more extensive reliance on the market within the system of economic control did not contradict the basic principle of central planning and control; on the contrary, it enhanced the efficiency of the latter.

4. The adequate operation of such a market mechanism presupposed, among others, the creation of a price system where the relative prices of products and services were roughly proportionate to the amounts of socially necessary labor embodied in them.[9] At the same time, however, prices had to adapt themselves to the domestic and international market situations much more elastically than they did in the past. In other words, prices had not only to influence the market situation, but also to reflect—at least to a limited extent—the conditions prevailing on the market, the relation of supply and demand and, in the last resort, the requirements of society. This

8 For readers in the West the term 'socialist market' might sound controversial, but keep in mind the political and ideological struggles reformers had to face at the time of introducing NEM. — A. H.

9 One can only wonder whether the changes in prices and wages in North Korea as of July 1, 2002, complied with these requirements. — A. H. See e.g. *The Economist*, July 27, 2002, p. 12 and pp. 24-25.

market could orient the economic actors only if producers and sellers did not have monopolistic positions or if they could not use such positions for eliminating the regulatory function that had to be exerted by the needs of society.

5. Another important precondition of creating such a market was the elaboration of a system of partly economic, partly administrative regulators (with the preponderance of the former), that would channel the activity of all economic units towards such directions of development and such proportions in the allocation of resources as were favorable for the implementation of the national economic plan. This system of regulators had to orient economic units in any new situation on what they had to do in conformity with what society expected from them. The national economic plan, the economic regulators, the central measures and legal rules issued by the state, the ways of utilization of centralized financial means as prescribed by the state: all these together brought about the economic environment in which enterprises were bound to operate. Contrary to the former situation where it was, in the main, by the plan indicators that enterprises had been informed on what they had to do, in the new system the enterprises were no longer given any numerically determined plan targets, tasks or indicators whatever. To this, exceptions occurred only in cases where utmost necessity justified them.
6. The new system also aimed at utilizing personal incentives basically in the service of meeting the needs of society by relying mainly on the interests associated with enterprise profits. By this it was meant that the leaders and the whole collective of each enterprise was made interested in attaining the highest possible profits. Domestic and international competition was to prevent the producers and sellers to exploit monopolistic positions on the market, so that they would not be able to raise prices and attain higher profits in this way. They had then to attempt to reduce their costs, improve the

quality of products, develop new processes of manufacturing and new kinds of manufactures, improve their organization and their product pattern, etc.[10]

Kornai looks back

Janos Kornai, the world famous Hungarian economist, in an article published at the end of 1986,[11] has summarized his views on the Hungarian reform process almost two decades after NEM has been introduced. Apart from his general evaluation to be cited word by word hereunder, I would like to review extensively his statements regarding the non-state sector, as this sphere of the economy has been vaguely covered in the previous sub-chapter of my paper.

In Kornai's view, notwithstanding its results, "the reform went only halfway. Hungarian state-owned firms do not operate within the framework of market socialism. The reformed system is a specific combination of bureaucratic and market coordination. The same can be said, of course, about every contemporary economy. There is no capitalist economy where the market functions in the complete absence of bureaucratic intervention. The real issue is the relative strength of the components in the mixture. Although we have no exact measures and, therefore, our formulation is vague, we venture the following proposition. The frequency and intensity of bureaucratic intervention into market processes have certain critical values. Once these critical values are exceeded, the market becomes emasculated and dominated by bureaucratic regulation. That is exactly the case in the Hungarian state-owned sector.[12] The market is not dead. It does some coordinat-

10 Needless to say, similar views prevailed regarding all areas of production and services as well. — A. H.

11 "The Hungarian reform process: Visions, hopes, and reality," *Journal of Economic Literature*, Vol. 24, (December 1986), pp. 1687-1737.

ing work, but its influence is weak. The firm's manager watches the customer and the supplier with one eye and his superiors in the bureaucracy with the other eye. Practice teaches him that it is more important to keep the second eye wide open: managerial career, the firm's life and death, taxes, subsidies and credit, prices and wages, all financial 'regulators' affecting the firm's prosperity, depend more on the higher authorities than on market performance."[13]

Kornai considered agriculture as the sector where the reform has been the most successful. While "before the reform, agricultural cooperatives were prohibited from engaging in any but agricultural activities, in the reform process, nonagricultural activities have developed. The cooperatives have engaged in food processing, in the production of parts for state-owned industry, in light industry, in construction, in trade, and in the restaurant business. The share of nonagricultural production in the total output of agricultural cooperatives was 34% in 1984. In this way profits have increased and seasonal troughs of employment could be bridged more easily."[14]

The most spectacular changes he noticed on the private household farms of cooperative members, where a large fraction of meat, dairy and other animal products, fruits and vegetables were produced. With few exceptions, there was no legal restriction on selling output, and prices were determined by supply and demand on the free market for

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12 Portes made the same general point much earlier, writing that "there is a threshold beyond which decentralization must go to take firm roots." He was, however, rather confident that Hungarian "strategy and tactics has brought the reform across this border." These views were shared by many outside observers. The opinion expressed in the present paper is different: the Hungarian reform did not cross the critical threshold that separates a genuine market economy (associated with a certain degree of bureaucratic intervention) from an economy basically controlled by the bureaucracy (with certain elements of market coordination). See: R. Portes: "The tactics and strategy of economic decentralization," *Soviet Studies*, Vol. 23, No. 4, April 1972, p. 657.

13 See Kornai, *ibid*, pp. 1699-1700.

14 *Ibid*, p. 1702.

foodstuffs; hence the peasants had a strong impetus to work hard and produce more. "In the old system the cooperative was hostile; private household farming was regarded as a 'bourgeois remnant' that should be replaced soon by collective forms of production. Now private household farming is declared a permanent component of agriculture under socialism. Cooperatives render assistance in different ways: they provide seeds, help with transport, lend machinery, give expert advice, and assist in marketing. A remarkable division of tasks has evolved in which the cooperatives concentrate more on grain and fodder, which can be produced more efficiently by large-scale operations, while private household farms focus on labor-intensive products where small-scale operations succeed better."[15]

In Kornai's view, the most spectacular trend of the Hungarian reform process was the growth of the private sector. The formal part of it employed mainly craftsmen, construction contractors, shopkeepers, and restaurant owners, who either worked alone or were assisted by their family members or a few hired employees. Kornai coined their activity the legalization of 'small capitalism'. He also gave account of a new form that "has appeared recently: the so-called business work partnership, a small-scale enterprise based on private ownership by the participants. It is a blend of small cooperative and a small owner-operated capitalistic firm."[16]

At the end of his analysis about the various forms of economic activities, Kornai points out that it was a characteristic feature of the Hungarian reform that it experimented with different mixed forms as well, thus combining state ownership with private activity or private ownership. He also gives a short description of three of them as follows:

Firms in mixed ownership. A few dozen firms are owned jointly by

15 *Ibid*, p. 1702.
16 *Ibid*, p. 1705.

the Hungarian state and foreign private business. A sharing of ownership by the Hungarian state and Hungarian private business does not exist.

Leasing. This form is widely applied in trade and in the restaurant sector. Fixed capital remains in state ownership, but the business is run by a private individual who pays a rent fixed by a contract and also taxes. He keeps the profit or covers the deficit at his own risk. The lessee is selected by auction; the person offering the highest rent gets the contract.

Enterprise business work partnership. In contrast to business work partnership [mentioned above — A. H.], which is a form clearly belonging to the formal private sector. Here we look at a group of people who are employed by a state-owned firm. They do some extra work under special contract for extra payment, but in some sense within the framework of the employer state-owned firm. In many cases the team is commissioned by its own firm. Or it gets the task from outside, but with the consent of the employer. In many instances the members are allowed to use the equipment of the firm. Such a partnership can be established only with the permission of the managers of the firm; each member needs a permit from his superiors to join the team.

The dilemmas of transition

In the following, I would like to share my views on some of the most important dilemmas countries face on the road of transition. As readers will see, my answer to almost all of them is not an either—or type solution, rather a mixed one. This is not only to express my feelings that finding compromises, making decisions on a consensus basis are absolute musts in politics (in the widest sense of the word), but also to reflect the experiences gathered so far by the countries who have already taken this path of development.

The biggest dilemma of all is, of course, whether a country should exist in total or partial *autarky, or join other countries—preferably the global community*. Strict insulation in today's world seems anachronistic by now, when globalization or, if you will, internationalization is unstoppable. Countries which some decades ago thought that they could do very well by joining some neighboring states to cooperate with (e.g. members of CMEA [Comecon] or ASEAN) soon had to note that they tried to accomplish a mission impossible. It was like joining a club of pensioners, or the blind leading the eyeless since, instead of giving a push to each other, they seemed to conserve their level of backwardness. This was, of course, not the case in absolute terms, but relative to other actors of the world economy, as such types of groupings have developed a distorted value system, in which they compared themselves to each other instead of measurements accepted worldwide.[17] It was only later that they noticed their mistakes, therefore ASEAN-members started to follow export-oriented policies, and CMEA-members introduced some economic reforms, of which the Hungarian one has been reviewed at great length above.

Another element worth commenting is *whether member states in such groupings should be of similar 'size'* (meaning a 'weighted average' of territory, population, national wealth, economic and political strength etc.) as was roughly the case for ASEAN, or is it acceptable or even preferable if one of them wants and can play the role of the leader. Our experience was that the overwhelming weight of the then Soviet Union proved to be counter-productive, leading to distortions like the ones cited above, not to mention the missing element of independence and, for the same reason, equal rights. We had to learn that in our own interest we would rather need partners than 'brotherly' or 'friendly' nations. Therefore, Hungary joined GATT in 1973, the IMF and the

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17 This policy has found also expression in that they were using physical terms, like weight, volume, length etc. versus values in their plans. To make things even worse, this practice resulted in an attitude that quality did not matter much.

World Bank in 1982, the OECD in 1995, Partnership for Peace and then NATO proper in 1994 and 1999 respectively. We have initiated the dissolution of the Warsaw Pact and Comecon, both of which were declared in 1991, and in the same year we signed the Treaty of Association with the European Community. Our associated membership started in 1994 and, if everything goes well, we might become full members of the EU in 2004.

Regarding the transition from the former centrally planned to the free market system, one of the questions most often asked is whether a so-called *shock therapy or a gradual approach* should be pursued. As ever when the life of millions of people are influenced, gradual solutions seem to be wiser. Even if no complete consensus making is ever possible when dealing with masses of people, democratic ways (public debates, opinion polls, referenda etc.) are the best to follow. Sometimes the policy of making statements, getting information to the public by use of the media can be applied as if to prepare the people for the changes to come. Nevertheless, some measures must be taken quite an unexpected way, otherwise they would lose from their efficiency, if not turn to be useless at all. (A good example might be the announcement of the devaluation or appreciation of the national currency.) Using of 'feelers,' having consultations with experts from both government and opposition parties, with the inclusion of NGOs, is also very advisable prior to taking decisions. When time allows, even feasibility studies are well worth being made, as opposed to the practice of trial and error.

An interrelated issue is whether *reforms should come from above or from below*. With the introduction and extension of market elements, more and more initiatives are put into force from below, yet the interaction process must end with an approval from above. Much depends, however, on the sphere the reforms under discussion relate to. Macroeconomic measures of stabilization, issues directly influencing monetary or fiscal policy cannot be introduced from below. Microeconomic restructuring at the level of companies, however, do not need authorization from above. Similarly, basic attitudes towards privatization or the role of foreign direct investments, for example, should be worked out from the top, yet concrete decisions on any given deals should definitely be delegated to local levels.

One of the most important dilemmas is the one between the *role of the market and that of the state.* (Here we shall handle it together with the dichotomy of *liberalization vs. protectionism*, even if it is not identical with but very similar to it.) I do believe that this dilemma is typical not only in the case of the countries in transition, but in almost every economy. Actually, even Hong Kong and Singapore have been facing it, which have long been considered extremely open economies. In my view, what is under discussion here is a matter of proportions. In this respect it is nothing new, as all free market economies of the world, small or big, had to rely on the application of such a policy mix. In the case of Hungary, the role of the market had perhaps been overemphasized following the systemic change. Products of daily use seemed to have disappeared from the shelves in the shops, reflecting a robust participation of foreign capital in the privatization process, often leading to a complete stoppage of their local production, and a 'replacement' of them by imports. Another widely applied scheme was that the 'new' products were identical with the old ones, only their labeling and packaging were changed. Needless to say, their prices did not remain the same… Apart from the mistake of not following the policy of selected and temporary protection of domestic industries (often called infant industries in the developing world), due social tensions were not considered either. People had to get acquainted with inflation and unemployment unknown to them before.

Finally, there is another aspect I would like to raise here, namely the matter of cultural and moral principles. In my view, a free market or liberalization *per se* should never mean total freedom. Hungary's experience has shown that pornography, junk food and junk culture, the use of drugs, (organized) crime gained ground, and, in general, an unnecessarily overheated over-politicization started to characterize the media. A consensus-based ‘censorship,’ combined with self restrain, would have been very beneficial. In this regard, just as in respect of choosing a more environment friendly development path, we could and should have avoided repeating the mistakes of the countries which preceded us by decades in economic and social development.[18]

18 Mine is, of course, a minority view, the majority of the people would rather say that we had to pay the ‘prices of democracy.’