"INDUSTRIAL POLICY IN HUNGARY": A COMMENT

Paul Craig Roberts

Professor Brada (1984) concludes from his survey of Hungarian economic experience that one of the more difficult aspects of formulating industrial policy has been the selection of the sectors to be promoted. I do not think that should surprise us. The people who are the most expert at selecting the sectors to be promoted are the capitalists. They have a hard time playing their own game. It seems only obvious that government bureaucrats trying to imitate them are going to do worse. The question, then, is: Why have bureaucrats instead of capitalists?

Ever since Oscar Langer redefined central economic planning to be market simulation, there has been no reason for any planning (Roberts 1971). It is obvious that no bureaucrats will ever be able to simulate the activities of the real experts—the capitalists themselves. And of course we know that bureaucrats will never face the same incentives as venture capitalists. By now everyone knows that a fundamental problem with so-called socialist or planned economies is the absence of private capital markets. What, then, could be the reason in the United States for having an industrial policy other than to overrule the decisions of the capital markets? The only obvious reason to have an industrial policy is to increase the power of government.

The United States once had an industrial policy. It was run by the Reconstruction Finance Corporation (RFC). If the Hungarians are smart, they will learn their lessons from us. The United States dissolved its industrial policy in 1953, amid charges of corruption, fraud, and political favoritism. An article in the January 1952 issue of *Harper's* magazine confirmed the Senate Banking Committee's 1951

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investigation of the RFC. It reported that the RFC had "thrust money on the proprietors of road-side snake farms, cultivators of cactus plants for sale in dime stores, dental clinics, paperboard makers, mattress makers, television manufacturers, canneries, movie houses, cafes, drug stores, truckers, a trailer manufacturer, a manufacturer of fluorescent lamps, a rainbow trout factory, and some very dubious fellows who wanted to be the concessionaires for the roulette room in a Nevada hotel." Someone remarked that the last item was probably the most successful of the RFC's capital allocations.

When I read between the lines of Professor Brada's paper, I believe I could conclude that in Hungary there is the use of "industrial policy" to dismantle or rationalize the remnants of central planning in Hungary. In the United States, however, industrial policy is an effort to replace liberty with government power. In the 1930s, 1940s, 1950s, and 1960s, academics could pretend that there was more to be gained than lost from subordinating liberty and elevating government power. They had careless theories about "market failure" despite the fact that every day they relied on markets to meet their needs. They produced slogans about how, once government had enough power, "planned production for community consumption" would replace the chaotic market economy. When F. A. Hayek and others argued that central planning would destroy liberty, many academics denied the obvious. One even went so far as to deny that Joseph Stalin was a dictator on the grounds that the Soviet constitution provided for no such office.

Today academics can no longer carry on the pretenses about the failures of markets and the successes of central planning. When it became impossible any longer to defend the Soviet economy, those academics who require a socialist illusion shifted to communist China. At Stanford University in the early 1970s, John Gurley, once the distinguished editor of the *American Economic Review*, found nirvana in Maoist economics. Today China itself is ruled by a convicted "capitalist roader," Deng Xiaoping, who is talking about opening a stock market. That and the generalized failure of central economic planning leave socialist-minded academics with only a sparse symbolism. The once fabulous claims for central economic planning have been reduced to a drab industrial policy, and in Hungary, Brada tells us, its only success is the production of buses. What socialist can be enthusiastic over that?

We have wasted several decades of scholarship while academics bent over backward to find successes in "Soviet-type economies." Today the last remaining claim for planning is the bus industry in

Hungary. With this pathetic claim, a sordid episode in the history of scholarship has come to an end.

Democratic societies must find some way to hold universities accountable. The politicization of scholarship that allowed academics to keep the failures of socialism under wraps for several decades, while they prattled on about the failures of markets, has adversely affected the lives and fortunes of large numbers of people. The social costs at home and abroad of this academic failure are enormous. I cannot say that the benefits of academic economics compensate for these costs.

References

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ECONOMIC REFORM IN HUNGARY: ROLE OF PLAN AND MARKET

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The question posed by Brada's paper (1984) is an important one: "Are there lessons for America from industrial policy in Hungary?" Quite likely the affirmative answer will ring with varying amplitudes of consent; all the way from a whispered "perhaps" to a resounding "yes." The differing degrees of consent may depend on the elements, processes, achievements, and institutions compared. Yet, in order to answer the question posed above, the inquiry must not be confined to international statistics which deal with size, growth, stability, equity, and other conventional indicators. The question can be more meaningfully answered by tracing changes in systemic parameters and variables such as plan, market, incentives, subsidies, mobility, and propensity to experiment. Indeed, by placing the United States and Hungary into juxtaposition as they currently debate their own industrial policy, some thought-provoking insights can be gained.

My answer to the rhetorical question posed by Brada's paper is that in the 1980s there are certain noteworthy lessons for America from Hungary as industrial policy issues evolve in the two countries. The prime lesson I find is that nowadays the Hungarians seem to trust the market mechanism more and the planning process less than the Americans. While the market's role is rising and the plan's role is declining in Hungary, simultaneously in the United States a reverse trend is afoot—a trend to reassign significant functions from the market sector to a planning apparatus. This trend is evident in the call for an industrial policy, the controversy over the deregulation of selected industries, and the rise in protectionist sentiment. In each

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