

# Friedrich List's program for Hungary's industrial development

by William Jones

The election in Hungary has created the possibility of putting the nation back on the road of economic development. If the new coalition government wants to avoid the devastation which the free market radicalism of Harvard economist Jeffrey Sachs has forced upon Hungary's neighbor Poland, they must go back to the roots of their own initial industrial development during the hectic years following the 1848 revolt, to find the principles they need to revive the Hungarian economy now. In such an investigation, they cannot but encounter the efforts of German economist Friedrich List, an integral figure in bringing the American System of Political-Economy to Hungary.

List can rightly be proclaimed the true theoretician of the American System of Political-Economy. Although the system itself was well into operation when List arrived here in the United States in 1825, and a great deal of theoretical material on its operation existed in the works, in particular, of Alexander Hamilton, Mathew Carey, and Henry Clay, it was List who first systematically elaborated its principles, in a series of letters (later published as the *Outlines of Political Economy*) to Charles P. Ingersoll, the president of the Pennsylvania Society for the Promotion of Manufactures and the Mechanic Arts.

The ideas spelled out there were later incorporated into List's major German work, *The National System of Political-Economy*, published in 1844. As List explains in his *Outlines*, he himself had been a follower of the British "free market system" of Adam Smith and Benjamin Say, until he saw the devastating effects of that system on the German economy after the defeat of Napoleon and the subsequent destruction of the Continental System. Ironically enough, German industry had flourished under the restrictions of the boycott of English goods, imposed by Napoleon as a weapon against the British maritime power. Not able to import cheap British manufacturing goods, the Germans were forced to develop their own fledgling industries, on the basis of which they later became a major industrial power. But it was only when List had succeeded in uniting the small principalities

of Germany economically in the *Zollverein* (the customs union), that the political basis for such a development was established.

## List in Hungary

List's interest in Eastern Europe was aroused by his early contacts with Hungarian refugees whom he met in Augsburg. Hungary, at that time a part of the Austrian Empire, was experiencing its first pangs of nationalist ferment among the dominant Magyar population. Far from opposing the development of nationalism based on the Magyar language, List felt that this indeed would be the ideal means for creating a strong national unity in one of the key countries bordering Russia, and could serve as a bastion against any threatened Russian aggression against central Europe.

Even before his celebrated visit to Hungary in 1844, List had shown a keen interest in the economic conditions in Austria-Hungary. His preoccupation with the extension of the European railroad system into the area (the development of a German railroad system having been the linchpin of his development project for Germany) as well as his general economic interest, had been expressed in numerous articles and economic treatises. He was also receiving economic publications from Austria and Hungary. In spite of numerous other commitments in Germany, List could not let rest his desire to win the Austrian government for his plan to build a railroad line from Hungary through Austria and Bavaria to the West. This project led to List visiting both these countries in 1844.

At that time, List's name was already well known. His *National System* had been translated into Hungarian and had been extensively read by the leading political figures. In Austria, List's polemical writings had prevented the British from succeeding in eliminating Austrian protective tariffs, which would have allowed them to flood the area with cheap English manufactured goods.

When he arrived in Vienna, List was received by the Archduke Ludwig and leading statesmen like Count Franz

Kolowrat-Liebsteinsky and the Austrian finance minister, Count Karl Friedrich Kubeck von Kubau. Also the industrial associations set up receptions in his honor.

Very soon, he was on his way to Hungary, stopping first at Pressburg (present-day Bratislava, in Czechoslovakia), where he was grandly received by the Hungarian magnates. Pressburg, then a part of Hungary, was the location of the Hungarian National Assembly. List had a longer audience in Pressburg with the Archduke Palatin Joseph, who enjoyed the particular confidence of the Hungarians. All the leading members of the nationalist Hungarian opposition were present at a reception in List's honor, including the "father of the Hungarian reforms," Count Stephen Szechenyi.

Szechenyi described the United States as "the land where the rights of mankind are the most equal, where the Constitution is the best." Because of his affinity for the United States, Szechenyi was called "der Amerikaner." Szechenyi had translated Friedrich Schiller's play *Don Carlos* into Hungarian. A Catholic by upbringing, Szechenyi described his economic principles in the following way: "The real power of a nation lies in the number of its scientifically educated heads. . . . Public strength consists not of fertile plains, mountains, minerals, climate, etc., but of reason being able to make sensible use of them." Szechenyi would later, as a leader of the Hungarian reform movement, implement many of List's ideas.

List's contacts in Pressburg were not only with the members of the National Assembly and the leading government officials, but also with shop owners and craftsmen, the *Mittelstand*, on whose initiative any successful economic reform would depend.

On Nov. 13, 1844, List continued on to Pest (incorporated later with Buda into the nation's capital). Here he was given the highest honors. List was asked for his advice on a variety of questions with regard to the economy, agriculture, industry, and immigration. Everywhere he helped stimulate the entrepreneurial spirit of the country.

At the beginning of December, List returned to Vienna, full of new hope for the success of his reform plans. Shortly after his arrival there, he was granted an audience with Count Clement von Metternich, to whom he presented his plans. Metternich, the mastermind of the reactionary Holy Alliance aimed at preventing the establishment of American republican principles on European soil, viewed List as a dangerous republican. Metternich had been receiving reports from a police agent who had all of List's activities in Hungary under surveillance. Metternich, expressing a mild interest in List's ideas, told him to present a written draft to the president of the Royal Court, von Kubeck. Metternich wrote a letter to von Kubeck with regard to List's ideas, some of which Metternich found of practical use. He warned von Kubeck, however, that he should never allow List to become anything more than a "dabbler in projects."

On his return to Germany, List then began work on his

paper for the improvement of the transportation system in Hungary, later drafting a longer treatise entitled *On the National Economic Reform of the Kingdom of Hungary*.

### A mercantilist reform plan

In the post-1814 Europe, dominated by the decisions of the Congress of Vienna, a republican revolt to upset the political structures of the European *entente* (consisting of Austria, Prussia, Russia, and Great Britain), showed little chance of immediate success. List's economic policies were a flanking maneuver in this tightly controlled political situation, aiming at establishing the American System in Europe. A successful introduction of these policies would lead to the establishment of a strong *Mittelstand* of small entrepreneurs, who could then become the political basis for the movement for republican reforms. The general thrust of List's economic policies would thereby undermine the structures of the autocratic states.

There were two major threats that List saw as the most immediate to his policies. The first was the threat from England, which was attempting to use its manufacturing capabilities to flood the less-developed European countries with cheap goods, thus maintaining of industrial underdevelopment. The second threat was from Russia, which had been proclaimed the "policeman of Europe" by the Congress of Vienna. Against the British, List used the weapon of his customs union, with a protective tariff wall against the English goods, behind which a viable domestic industry could be built up. As for the Russian threat, List thought that the creation of strong nation-states in Eastern Europe was the greatest defense.

List's view of the Russian Empire was indicated in no uncertain terms later, in his draft on Hungarian reform: "The violence, which unites such a great mass of barbarian hordes into a nation, is purely of a military nature, lacking almost any internal coherence. The normal, orderly civilizing process occurs much too slowly in such a country for the government to be able to hope in this manner to establish a more stable basis for their power within a reasonable period of time—a basis more suited to the well-being of the individual. Developed out of the bayonet, asserted and maintained by the bayonet and by the bayonet expanded and secured—only through the bayonet does it have a future; any essential deviation from that principle of existence would be considered an abdication of power. Conquest is its natural instinct, just as the ravenous beast must hunt the weak and the lame. Also beasts of prey occasionally appear peaceful and calm, particularly when they lie still; this does not mislead the student of nature about the true nature of the beast. . . . All of Russia is one great military colony whose forces double every 50 years, and it is worlds apart from the Austrian military colony in that the former is primarily used for attack against neighboring countries, whereas the latter is planned and organized only for the defense of the country."

## Hungary: free marketeers and communists lose

On April 9, in the first free elections since 1945, Hungary cast off the communist yoke with a major victory for the Hungarian Democratic Forum, giving it 165 of the 386 contested seats in the new Parliament. The HDF will be the linchpin in whatever coalition emerges from the elections. The remnant of the old Hungarian Communist Party, repackaged as the Socialist Party, which had ruled the country for over 40 years as a satrapy of Moscow (albeit of later date in the somewhat milder form of "goulash communism") suffered a resounding defeat. The Socialists received only 8.3% of the votes. The foreign minister in the Socialist Party government, Gyula Horn, came in second behind an HDF candidate in his district near Lake Balaton. Another leading former communist, Imre Pozsgay, who four months ago had been regarded as a strong contender for President, withdrew after he came in third two weeks ago in his district.

But not only the communists received a stinging rebuke from the voters; also the Thatcherite "free market" liberals went from the elections licking their wounds. The Alliance of Free Democrats, an urban-based party of former dissidents and intellectuals which advocated a rapid transformation to free market economics received only 92 seats in the Parliament and only 24% of the votes. The Alliance also lost heavily in Budapest, which had been expected to be its stronghold. The Alliance had stooped to using smear tactics during the elections, attempting to portray the patriotic appeal of the Democratic Forum as "Nazi propaganda."

The victory of the HDF could mean that the "Hungari-

an experiment" would not so easily traverse the dangerous path taken by the Solidarnosc-led government in Poland. Poland's complete submission to a murderous International Monetary Fund austerity policy, in a plan authored by Harvard's "free market" advocate Jeffrey Sachs, has wrought havoc with the Polish economy. The HDF is also committed to introducing market reforms into Hungary's statist economy, but has clearly indicated that it advocates a careful transition to a market economy and a convertible currency. It has also indicated that it will tightly regulate the privatization of Hungarian industry and use the powers of the state to ease the pain of unemployment. It is also opposed to the debt-for-equity swaps being proposed by the international financial institutions as a solution to Hungary's economic problems.

The party's leader, Jozsef Antall, presented a strong nationalistic appeal calling for a "united Hungarian nation" and promising to protect traditional family values and to look after the rights of the estimated 3.5-4 million ethnic Hungarians living in bordering countries. The party also emphasizes basic Christian values. The scurrilous slander of the Free Democrats about the Forum's alleged "anti-Semitism" appears rather ludicrous, in the light of Jozsef Antall's own background. His father, a founder of the rural-based Smallholders Party in the 1930s, helped save Jews during the war until the Nazis imprisoned him. His son was active in that party when it briefly revived during the 1956 Hungarian uprising, an uprising sabotaged by the failure of the West to respond to the appeals of the Hungarians for assistance. The Forum has also a strong public record in support of Hungary's 80,000 Jews. Antall responded to the attacks of the Free Democrats by saying, "We don't like it when ex-communists teach us liberalism," accusing the Free Democrats of using "Bolshevik" tactics. Antall is referring to the fact that many of the leading people in the Alliance of Free Democrats have backgrounds as radical Maoists. "We have different polit-

### Hungary's role in Europe

List was very favorably inclined to the national aspirations of the enlightened Hungarian nobility. He clearly warned the Austrian government that if it did not place itself at the head of his outlined reform and recognize the national aspirations of the Hungarians, the unavoidable upsurge in Hungary would be used by the Russians against the West. "The wounds of the Hungarian disorder are immediately the most abundant source of weaknesses for Austria," he said, "while an agreement and reconciliation between the government and the people based on a sincere political and economic reform would threaten to put an end to the short-term and long-term threat from Russia."

The Hungarian opposition, in desperate search for help

in its fight against the Austrian autocracy, might be lured into an alliance with the Russians—a development which would spell disaster for the Hungarians. "Russia, itself swollen with its own surplus of agricultural production and standing on the lowest level of culture—how would it be able to have a civilizing effect, by means of its trade, on other barbaric countries, when it has only agricultural products to offer for their manufacturing needs? These countries would only exchange the condition of a mild barbarism and despotism for a harsh one."

The only hope for a rapid industrial development of Hungary would be in a closer economic relationship with Austria and the West, a relationship which would require recognition by the Austrian imperial bureaucracy of the legitimate aspira-

ical roots," Antall said in a recent interview. "We are the two poles of Hungarian political life." Antall describes the HDF as a "European center party" with strong similarities with and ties to the European Christian Democratic parties.

Rejecting any coalition with the Free Democrats, the Forum is holding discussions with the Smallholders Party and the Christian Democratic People's Party to try and forge a strong government coalition. The Smallholders Party won 43 districts, with 11.1% of the vote.

The party wants to move for a rapid integration into the European Community. It has also said that it wants U.S. troops to remain in Europe in order to balance a united Germany and a Soviet Union threatened by instability.

The victory of the Forum met with mixed reactions from the U.S. media. The *New York Times* played up accusations of anti-Semitism. But the real fear of the U.S. Eastern Establishment is that Hungary under a nationalist leadership will not be prepared to sell its industrial patrimony at bargain-basement prices, as demanded by the U.S. financial elite and by their political underlings like Henry Kissinger. The former ambassador to Hungary, R. Mark Palmer, of the Kissinger grouping, is now shuttling between Prague and Budapest, hoping to accomplish just that in the newly liberated countries of Eastern Europe.

But if Antall is successful in creating a strong three-party coalition, the Hungarian government will undoubtedly opt for linking the country with the Paris-Berlin-Vienna railroad triangle now dominating European, and particularly West German, industrial efforts in Eastern Europe, rather than allowing itself to become a low-price bazaar for the financial speculators. At any rate, Hungary has been given a new lease on life by the elections. If the new government moves for industrial and infrastructural projects, it could open up a new era for a rapidly growing Hungarian industrial economy. —William Jones

tions of the Hungarian people.

List distinguished three major political groups in Hungary: the ruling nobility, the agricultural workers of all classes and races, and the residents of the cities, who were at that time deprived of all political rights. Within the nobility there were two basic groups: those who politically lived in the 19th century, and those who lived in the 13th—the educated nobility on the one side, and the peasant nobility on the other. Among the former, especially among the younger members, the "aristocratic-democratic element" was very strong. This element, List saw as the real bearer of his reforms.

Hungary looks on Poland, List points out, "with the same feeling that might seize a noble steed when it has the corpse of another steed in view. It is gripped with fear, it snorts and

stamps its feet, it lurches back, it obeys neither reins nor spurs, neither coaxing nor insults, finally rearing up, threatening to throw its rider." The state of Hungary, however, was "afflicted with the same illness which has killed Poland: with the servility and apathy of the working classes, with the lack of rich, flourishing and free cities and grand industries, and generally, with the lack of a wealthy and efficient *Mittelstand*, that is, an energetic, industrious, thrifty, enlightened, orderly, patriotic and freedom-loving democracy, without which there could never be a wealthy and respectable and powerful nobility, capable of greater achievements and patriotic sacrifice nor a great monarchy which in the long run would be capable of weathering all storms coming from without."

The suspicious attitude of the Austrian nobility and state bureaucracy toward the national aspirations of the Hungarians was creating growing mistrust between the two sections of the Empire. An arrogant imperial attitude toward the Hungarians could only create an irreparable conflict between Austria and Hungary. The development of the Hungarian nation could only be accomplished by an industrial alliance with the industrially more developed nations of the West, in particular with Austria.

Such an alliance, respecting the legitimate national aspirations of the Magyar people, would also have a positive effect on Austria. It would come into closer contact with Hungary's more vibrant democratic life, where the organization of the Hungarian district councils had given the members of the enlightened nobility their first school of politics. In this respect, List understood that Austria was a hundred years behind the Hungarians, and considered it something of an anomaly that the Austrian bureaucracy would want to rule a constitutional republic. He warned the Austrians not to attempt to force their bureaucratic methods on the Hungarians, noting the potential beneficial effects of Hungary's constitutional structure on the autocratic Austria. The example of Hungary could help "place the state bureaucracy in a subordinate position, where, supported by constitutional organs, it could fulfill its mission." The way to such a goal was the "alliance of the government [Austria] with the intelligent and civilized section of the ruling element [in Hungary], in order to subdue the portion of the population still sunk in barbarism and to lead them to reform."

### The Hungarian Company

List called for the establishment of a stock company to be called the Hungarian Company, which would be responsible for the development of a transportation system connecting Hungary to the West. The main artery of this would be a railroad line from Vienna to Budapest, following the Danube River. The construction of railroads and canals would call upon the wood resources in the Slovakian forests, whose increased exploitation in building the new railroads and canals would serve to develop a skilled labor force. Roads and

## Sacrificing for 'Great Russia'

There was no joy in this year's pre-Easter message from the Soviet government to the population of Russia and the peoples of the empire's Captive Nations. Czar-President Mikhail Gorbachov, sitting in the Kremlin, in a moment of profound inspiration generated by the "New Thinking," had, dialectically of course, devised a "solution" to the Russian empire's systemic crisis. Being a Czar, he had of course access to the Czarist archives, and, looking in the subject catalogue under the heading, "Systemic Crisis solutions," found what he sought. It was, frankly speaking, not a very original solution, but it was traditional, in the Great Russian autocratic tradition. And for a modern-day Czar what could be more important?

The solution was that prescribed by pre-1917 Czars, and rediscovered by those post-1917 holders of eternal wisdom, Vladimir Lenin and Josef Stalin. Czar Gorbachov's "solution" is to have his subjects, led by the Great Russians, sacrifice under a brutal austerity program so that, through their "patriotic" blood, sweat, and tears, Russia may resurrect itself and remain a "Great Power."

Czars being Czars, the "mission" of conveying this latest flash of "New Thinking" to the population, in case its implementation should produce a revolt, was relegated to a court servant; in this case, U.S.S.R. Deputy Prime Minister Leonid Abalkin, who delivered his address on Palm Sunday, April 8. Abalkin announced that price con-

trols will be lifted starting this year, making all items much more expensive than they now are. However, Imperial proclamations cannot be framed in mundane words like "price increases." The poor subjects must be told that their misery is serving noble causes. To quote Abalkin, "austerity" has been regally named "Economic Revolution": "The Economic Revolution will be painful and difficult . . . but without such a transition, the country has no future as a Great Power. . . . We have to sacrifice, but there is no other option . . . [otherwise] we will deprive ourselves and our children of the benefits of a Great Power."

However, will Russians really listen to an Abalkin, a mere economist, and a Communist Party member? The Czar did not overlook this problem. Every Czar has at least one Rasputin for such emergencies, and Czar Gorbachov is no exception. His new Imperial ruling body, the Presidential Council, contains Valentin Rasputin, the Russian chauvinist writer who is not a Communist Party member, who was placed on the Council, in his own words, "because I represent Russia."

So, for those Russians who would ignore a "patriotic" appeal to sacrifice, coming from Abalkin, an authentic "Voice of Mother Russia," as authentic as, say, Fyodor Dostoevsky, has been provided by His Majesty, to ensure compliance with the sacrificial requirements of the systemic crisis. The requirements, according to Rasputin, are: "An end to the consumer society," which is a "Western" evil imposed upon Russia, and with this end, a "re-birth of Russia," freed from "Western influences." Abalkin's price increases will ensure the "end of the consumer society." Rasputin's job is to make sure it happens without a revolt. Will he succeed and save the throne and empire? The last Rasputin didn't.

canals would have to be built to create direct links between the mountainous regions of the north and the central plains regions and between the Danube and all parts of the country. This would also enhance the export possibilities for Hungarian agricultural products. List also called for a program of land reclamation in the swampy areas.

List realized that feudal privileges would have to be significantly curtailed and a system of taxation established also for the nobility, in order to create a financial basis for these projects. The Hungarian Company should also be granted state-guaranteed loans from the Austrian government to initiate its projects. The program called for the exploitation of the bituminous coal deposits and iron ore which were to be found in the country. The increased skill levels of the labor force which such a program would require demanded the

improvement of the national education system.

The Listian program received little immediate response from the imperial bureaucracy, whose failure to act undoubtedly contributed to the outbreak of the 1848 Revolution. When the Dual Kingdom of Austria-Hungary was established in the aftermath of that revolution, the Listian program was by and large implemented, under different conditions, creating the infrastructural basis for Hungary's industrial development 20 years later.

Then as now, Hungary's future lay in the implementation of a Listian development program, rather than British "free market" follies. In that respect, a Hungarian connection today to the Central European railroad triangle would provide the only workable basis for its national industrial development.